

Blackstone Group L.P.  
Form 10-K  
February 26, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**  
**OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**  
**Commission File Number: 001-33551**

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

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(Registrant's telephone number, including area code)

## Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common units representing limited partner interests	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2015 was approximately \$24.8 billion, which includes non-voting common units with a value of approximately \$2.4 billion.

The number of the Registrant's voting common units representing limited partner interests outstanding as of February 19, 2016 was 565,216,681. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of February 19, 2016 was 59,083,468.

## DOCUMENTS INCORPORATED BY REFERENCE

None

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### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission ( SEC ), which are accessible on the SEC 's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

### **Website and Social Media Disclosure**

We use our website ([www.blackstone.com](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Instagram ([instagram.com/Blackstone](http://instagram.com/Blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the Contact Us/Email Alerts section of our website at <http://ir.blackstone.com>. The contents of our website, any alerts and social media channels are not, however, a part of this report.

In this report, references to Blackstone, the Partnership, we, us or our refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation ( CLO ) and collateralized debt obligation ( CDO ) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. Our carry funds refers to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone 's Private Equity segment comprises its management of corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners ( BCP ) funds, our opportunistic investment platform that invests globally across asset classes, industries and geographies, which we collectively refer to as Blackstone Tactical Opportunities ( Tactical Opportunities ), and Strategic Partners Fund Solutions ( Strategic Partners ), a secondary private fund of funds business. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ( BREP ) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ( BREDS ) funds. We refer to our core+ real estate funds, which target substantially stabilized assets generating relatively stable cash flow, as Blackstone Property Partners ( BPP ) funds. We refer to our listed real estate investment trusts as REITs.

Our hedge funds refers to our funds of hedge funds, certain of our real estate debt investment funds, including a registered investment company, and certain other credit-focused funds which are managed by Blackstone.

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Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), with the majority of our funds requiring from 60 days to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,

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(f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,

(g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

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For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

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**PART I.**

**ITEM 1. BUSINESS**

***Overview***

Blackstone is a leading global alternative asset manager, with Total Assets Under Management of \$336.4 billion as of December 31, 2015. As stewards of public funds, we look to drive outstanding results for our investors and clients by deploying capital and ideas to help businesses succeed and grow. Our alternative asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary funds and other multi-asset class strategies. We historically also provided a wide range of financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services. In October 2015, however, we completed the previously-announced spin-off of these businesses, other than our capital markets services business, which was retained.

All of Blackstone's businesses use a solutions oriented approach to drive better performance. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses.

Two of our primary limited partner constituencies are public pension and corporate funds. As a result, to the extent our funds perform well, it supports a better retirement for millions of pensioners.

In addition, because we are a global firm with a footprint on nearly every continent, our investments can make a difference around the world. We are committed to making our family of companies stronger in ways that can have transformative impacts on local economies.

As of December 31, 2015, we had 104 senior managing directors and employed approximately 790 other investment professionals at our headquarters in New York and in 20 other cities around the world. We believe hiring, training and retaining talented individuals coupled with our rigorous investment process has supported our excellent investment record over many years. This record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

***2015 Highlights***

***Strong Realization Activity***

Sustained strong exit activity despite a volatile market backdrop and slowing public sales, with total realizations of \$43 billion, down slightly from a firm record of \$45 billion in 2014.

Active participation in equity and debt capital markets, including over 30 public equity transactions raising an aggregate of over \$15 billion in proceeds, and a number of portfolio company refinancings. Equity capital markets activity included the successful initial public offerings of Summit Materials, Scout24, Performance Food Group, Intertrust and SH Kelkar.

***Record Global Investment Pace***

Our funds, including co-investments, invested a record \$32 billion of capital.

Global scale and size allow Blackstone to identify relative value and deploy capital in the most attractive opportunities. Our real estate business leveraged its singular platform to consummate hallmark deals in 2015, including the acquisition of the majority of GE Capital's real estate business, the acquisition of Stuyvesant Town, Manhattan's largest apartment complex, and four take-privates of public real estate companies.





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***Strong Growth in Assets Under Management Despite Record Realization Pace***

Each of our investing businesses saw positive growth in Assets Under Management in 2015, despite significant levels of realizations, primarily due to continued strong inflows through product and channel diversification.

Gross organic capital inflows across our businesses reached \$94 billion for 2015, of which \$13 billion was through the retail channel (which includes funds raised through intermediary firms that focus their offerings primarily on private clients and flows into products whose target audience is private clients, such as mutual funds, separately managed accounts and business development companies). We believe \$94 billion of gross organic capital inflows is a record fiscal year for any alternative asset management firm.

Our seventh flagship private equity fund closed with third party commitments of \$17.5 billion.

Our eighth global real estate fund closed with third party commitments of \$16 billion.

Our new core+ real estate platform raised nearly \$7 billion in its second year to reach \$11 billion in Assets Under Management.

Hedge Fund Solutions had external gross inflows of \$11 billion, including additional inflows into Blackstone Alternative Asset Management s ( BAAM ) registered product platform, which is now \$7 billion in size.

Senfina, BAAM s multi-strategy trading platform, grew rapidly to \$2 billion in Assets Under Management across eight portfolio managers.

Strategic Partners began raising its latest secondary fund of funds.

Tactical Opportunities continued fundraising for its platform of separately managed accounts, raising over \$7 billion in 2015.

Credit continued to diversify the platform and launch new products, driving \$23 billion in gross inflows during 2015.

***Completion of the Spin-Off of Our Advisory Business***

In October, we completed the previously-announced spin-off of the operations that have historically constituted our Financial Advisory segment, other than our capital markets services business, a transaction that creates new growth opportunities for our investing business. The financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses were spun-off from Blackstone and combined with PJT Capital LP, an independent financial advisory firm founded by Paul J. Taubman, to form an independent, publicly traded company called PJT Partners Inc.

***Industry-Leading Credit Rating and Strong Balance Sheet***

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Strong balance sheet with no net debt, \$4.2 billion in total cash, corporate treasury and liquid investments, and a \$1.1 billion undrawn revolver.

S&P and Fitch have both affirmed Blackstone's A+ / A+ credit ratings, making Blackstone the highest rated alternative asset manager and one of the highest rated global financial services firms.

Raised \$678 million of debt capital in 2015, including the successful execution of our first euro bond sale in a highly oversubscribed offering of \$300 million of 2.0% notes due 2025 and of an offering of \$350 million of 4.45% notes due 2045.

### ***Positively Impacting Communities***

The Blackstone Charitable Foundation believes that entrepreneurship plays a crucial role in economic growth. The Foundation works with local partners in targeted regions worldwide to create or grow

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non-profit programs that support the networks and resources that entrepreneurs need to succeed. The Foundation has committed \$40 million to this Entrepreneurship Initiative since the program's inception in 2010. In 2015, the Foundation expanded one of its signature programs Blackstone LaunchPad, to three universities in Ireland and five universities in New York state.

In support of The White House's Joining Forces initiative, Blackstone launched its Veterans Hiring Initiative, committing to hire 50,000 veterans across our portfolio of companies over a five-year period. More than 33,000 veterans have been hired since the Veterans Hiring Initiative was announced in April 2013. In 2015, we partnered with KKR, Carlyle and TPG to expand our annual summit to include representatives from across the industry, with U.S. First Lady Michelle Obama delivering keynote remarks and 150 hiring executives from the firms' collective portfolio in attendance.

### **Business Segments**

Our four business segments are: (a) Private Equity, (b) Real Estate, (c) Hedge Fund Solutions and (d) Credit.

Information about our business segments should be read together with Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and related notes included elsewhere in this Form 10-K. As a result of the spin-off of our Financial Advisory business in October 2015, which did not include our capital markets services business, the results of our capital markets services business were reclassified from our prior Financial Advisory segment to the Private Equity segment. All prior periods in this report have been recast to reflect this reclassification.

#### ***Private Equity***

Our Private Equity segment, established in 1987, is a global business with approximately 230 investment professionals managing \$94.3 billion of Total Assets Under Management as of December 31, 2015. We are focused on identifying, managing and creating lasting value for our investors. Our Private Equity segment includes our (a) corporate private equity funds, (b) Tactical Opportunities, our opportunistic investment platform that invests globally across asset classes, industries and geographies, (c) Strategic Partners, our secondary private fund of funds business, (d) Blackstone Total Alternatives Solution (BTAS), a new multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone's key illiquid investment strategies through a single commitment and (e) our capital markets services business. We have raised seven general private equity funds as well as three specialized corporate private equity funds focusing on energy and communications-related investments. We are currently investing from our sixth general private equity fund, Blackstone Capital Partners VI (BCP VI) and our second energy fund, Blackstone Energy Partners II (BEP II).

Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in mature companies and greenfield development projects in energy and power). Our private equity business's investment strategies and core themes continually evolve, in anticipation of, or in response to changes in the global economy, local markets, regulation, capital flows and geopolitical trends. We seek to construct a differentiated portfolio of investments with a well-defined, interventionist, post-acquisition value creation strategy. Similarly, we seek investments that can generate strong unlevered returns regardless of entry or exit cycle timing. Finally, when we can identify sectors or geographies in which the demand for capital greatly exceeds the readily available supply, our private equity business seeks to make investments at or near book value where it can create goodwill or franchise value through post-acquisition actions.

Tactical Opportunities, our opportunistic investment platform, invests globally across asset classes, industries and geographies. Tactical Opportunities' mandate allows for flexible investing where it seeks to capitalize on

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time-sensitive, complex or dislocated market situations in areas where it sees mispriced risks. The Tactical Opportunities team leverages intellectual capital from across all of our businesses to inform our investment diligence and execution. A flexible investment mandate allows Tactical Opportunities to structure a broad range of investments, including private and public securities and instruments, where the underlying exposure may be to equity, debt and/or real assets, and to construct a diversified portfolio of investments that provides differentiated exposures relative to traditional alternative asset managers.

Strategic Partners, our secondary private fund of funds business was established in 2000. Strategic Partners is focused on delivering access to a range of opportunities, leveraging its proprietary database to acquire single fund interests or complex portfolios in an efficient and timely manner.

For more information concerning the revenues and fees we derive from our Private Equity segment, see [Incentive Arrangements / Fee Structure](#) in this Item 1.

### ***Real Estate***

Since our start in 1991, we have become a world leader in real estate investing with approximately 265 investment professionals and \$93.9 billion of Total Assets Under Management as of December 31, 2015. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment vehicles, a NYSE publicly traded real estate investment trust ( [BXMT](#) ) and several core+ real estate funds. We refer to our opportunistic real estate funds as our Blackstone Real Estate Partners ( [BREP](#) ) funds, our real estate debt investment vehicles as our Blackstone Real Estate Debt Strategies ( [BREDS](#) ) funds and our core+ real estate funds as our Blackstone Property Partners ( [BPP](#) ) funds.

Our [BREP](#) funds are geographically diversified and target a broad range of opportunistic real estate and real estate related investments that are generally undermanaged assets with higher potential for equity appreciation. [BREP](#) has made significant investments in lodging, office buildings, shopping centers, residential and a variety of real estate operating companies.

Our [BREDS](#) vehicles target real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

Our [BPP](#) funds are geographically diversified and target substantially stabilized assets generating relatively stable cash flow with a focus on office, multifamily, industrial and retail assets in gateway markets.

Our Real Estate segment's investing approach is guided by several core investment principles, including global scope, a significant number of exclusive opportunities, financing expertise, operations oversight and a strong focus on value creation. For more information concerning the revenues and fees we derive from our Real Estate segment, see [Incentive Arrangements / Fee Structure](#) in this Item 1.

### ***Hedge Fund Solutions***

Our Hedge Fund Solutions group is comprised primarily of Blackstone Alternative Asset Management ( [BAAM](#) ). [BAAM](#) is the world's largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solution segment also includes investment platforms that seed new hedge fund talent, purchase ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade long and short public equities. Working with our clients over the past 26 years, our Hedge Fund Solutions group has developed into a leading manager of institutional hedge fund of funds with approximately 165 investment professionals managing \$69.1 billion of Total Assets Under Management as of December 31, 2015. Hedge Fund Solutions' overall investment philosophy is to protect and grow investors' assets through both commingled and

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custom-tailored investment strategies designed to deliver compelling risk-adjusted returns and mitigate risk. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. For more information concerning the revenues and fees we derive from our Hedge Fund Solutions segment, see [Incentive Arrangements / Fee Structure](#) in this Item 1.

### ***Credit***

Our credit business, consisting principally of GSO Capital Partners LP ( [GSO](#) ), with \$79.1 billion of Total Assets Under Management as of December 31, 2015 and approximately 160 investment professionals, is a leading participant in the leveraged finance markets. The funds we manage or sub-advise include senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. GSO also manages separately managed accounts and registered investment companies including business development companies. These vehicles have investment portfolios consisting of loans and securities spread across the capital structure, including senior debt, subordinated debt, preferred stock and common equity. GSO may utilize leverage in connection with certain of the investments made by the credit-focused funds, separately managed accounts or registered investment companies. GSO manages 51 separate CLOs as of December 31, 2015, focused primarily on senior secured debt issued by a diverse universe of non-investment grade companies.

### **Financial and Other Information by Segment**

Financial and other information by segment for the years ended December 31, 2015, 2014 and 2013 is set forth in Note 21. [Segment Reporting](#) in the [Notes to Consolidated Financial Statements](#) in [Part II. Item 8. Financial Statements and Supplementary Data](#) of this filing.

### **Pátria Investments**

On October 1, 2010, we purchased a 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, [Pátria](#) ). Pátria is a leading Brazilian alternative asset manager that was founded in 1988. As of December 31, 2015, Pátria's alternative asset management businesses managed \$8.6 billion in assets and include the management of private equity funds (\$3.9 billion), real estate funds (\$1.1 billion), infrastructure funds (\$3.3 billion) and new initiatives (\$310 million). Pátria has approximately 230 employees and is led by a group of three managing partners. Our investment in Pátria is a minority, non-controlling investment, which we record using the equity method of accounting. We have representatives on Pátria's board of directors in proportion to our ownership, but we do not control the day-to-day management of the firm or the investment decisions of their funds, all of which continues to reside with the local Brazilian partners.

### **Investment Process and Risk Management**

We maintain a rigorous investment process across all of our funds, accounts and other investment vehicles. Each fund, account or other vehicle has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund, account or other vehicle will invest, as well as limitations required by law. In addition, the chief investment officers of our businesses play a central role in the evaluation of investment opportunities, including by serving as members of their respective investment committees.

Our business' investment committees review and evaluate investment opportunities in a framework that includes a qualitative and quantitative assessment of the key risks of each investment. For example, considerations that the investment committees of our private equity funds take into account when evaluating an investment include the quality of a business in which the fund proposes to invest and the quality of the management team of such business, expected levered and unlevered returns of the investment in a variety of investment scenarios, the ability of the company in which the investment is made to service debt in a range of economic and interest rate

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environments, environmental, social and governance, or ESG, issues and macroeconomic trends in the relevant geographic region. In addition, considerations that the investment committees of our real estate funds take into account when evaluating an investment include current and anticipated market fundamentals (including, for example, supply and demand fundamentals) and macroeconomic trends in the relevant geographic region, the quality of the asset in which the fund proposes to invest, the appropriateness of existing or planned leverage levels of the business or asset and our ability to successfully implement operational plans and improvements and exit the investment at an expected rate of return.

### **Private Equity Funds**

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) submits a proposed transaction for review by the review committee of our private equity funds. Review committee meetings are led by an executive committee of several senior managing directors of our Private Equity segment. Following assimilation of the review committee's input and its decision to proceed with a proposed transaction, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of Stephen A. Schwarzman, Hamilton E. James and selected senior managing directors of our Private Equity segment as appropriate based on the location and sector of the proposed transaction. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members.

Our Tactical Opportunities business has a substantially similar process to the Private Equity process described above, with the exception of the composition of the review and investment committees. The Tactical Opportunities review committee is comprised of the senior managing directors and managing directors of the Tactical Opportunities business and a senior managing director of our Private Equity business, and the investment committee is comprised of Mr. Schwarzman, Mr. James, the business heads of Blackstone's Private Equity, Real Estate and Credit businesses, and certain other senior managing directors.

The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for monitoring and assisting in enhancing portfolio companies' operations and value, all professionals in the Private Equity segment meet several times each year to review the performance of the funds' portfolio companies.

Our Strategic Partners secondary private equity investment professionals seek capital appreciation through the purchase of secondary interests in mature, high-quality private equity funds from investors seeking liquidity. After rigorous, highly analytical investment and operational due diligence, the Strategic Partners' investment professionals will present a proposed transaction to the group's Investment Committee. The Strategic Partners Investment Committee is made up of senior members of the Strategic Partners team, including all of the group's Senior Managing Directors. The Investment Committee meets on an ad hoc basis as needed to review transactions. After reviewing the investment team's Investment Committee Memorandum and discussing the contemplated transaction with the deal team, the Investment Committee decides whether to approve or deny the investment. The investment professionals on the Strategic Partners team are responsible for monitoring each investment once it is made. In addition to members of the investment team, and given the large number of underlying investments, the Strategic Partners Finance team will also track investment valuations pursuant to the group's valuation policies and procedures.

### **Real Estate Funds**

Our Real Estate investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing, monitoring and exiting investments, as well as pursuing operational

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improvements and value creation. Our real estate operation has an investment committee similar to that described under Private Equity Funds. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly meeting of the investment committee. The real estate investment committee, which includes Mr. Schwarzman, Mr. James and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of each transaction and approves the making and disposition of each BREP and BPP fund investment. The committee also approves significant illiquid investments by the BREDS funds. Additionally, BXMT has an investment risk management committee comprised solely of independent directors, which is responsible for approving certain significant BXMT investments. In addition to members of a deal team and our asset management group responsible for monitoring and assisting in enhancing portfolio companies' operations and value, senior professionals in the Real Estate segment meet several times each year to review the performance of the funds' portfolio companies and other investments.

## **Hedge Fund Solutions**

Before deciding to invest in a new hedge fund or with a new hedge fund manager, our Hedge Fund Solutions team conducts extensive due diligence, including an on-site front office review of the fund's/manager's performance, investment terms, investment strategy and investment personnel, a back office review of the fund's/manager's operations, processes, risk management and internal controls, industry reference checks and a legal review of the investment structures and legal documents. Once initial due diligence procedures are completed and the investment and other professionals are satisfied with the results of the review, the team will present the potential investment to the relevant Hedge Fund Solutions Investment Committee. The Investment Committees are comprised of relevant senior managing directors and senior investment personnel. The Hedge Fund Solutions Executive Committee reviews and approves all investment allocations where there is limited capacity or there are other unusual circumstances for compliance with the relevant allocation procedures. Existing investments are reviewed and monitored on a regular and continuous basis, and J. Tomilson Hill, CEO of Hedge Fund Solutions and Vice Chairman of Blackstone, and other senior members of our Hedge Fund Solutions team, generally meet bi-weekly with Mr. Schwarzman and Mr. James for a high-level review of the group's business and affairs.

## **Credit**

Each of our credit-focused funds has an investment committee similar to that described under Private Equity Funds. The investment committees for the credit-focused funds, which typically include Bennett J. Goodman and J. Albert Smith III and senior members of the respective investment teams associated with each credit-focused fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. These investment committees have delegated certain abilities to approve investments and dispositions to credit committees within each operation which consist of the senior members of the respective investment teams associated with each fund. In addition, senior members of GSO, including Mr. Goodman and Mr. Smith III, meet regularly with Mr. Schwarzman and Mr. James to discuss investment and risk management activities and market conditions.

The investment decisions for the customized credit long-only clients and other clients whose portfolios are actively traded are made by separate investment committees, each of which is composed of certain of the group's respective senior managing directors, managing directors and other investment professionals. With limited exceptions where the portfolio managers wish to capitalize on time sensitive market opportunities, the investment committee approves all assets that are held by the applicable client. The investment team is staffed by professionals within research, portfolio management, trading and capital formation to ensure active management of the portfolios. Investment decisions (including the approval of the asset for the initial purchase) follow a consensus-based approach. Industry-focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation as well as the risks associated with the overall portfolio composition.



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Investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for our investors.

### **Structure and Operation of Our Investment Vehicles**

We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and (to a limited extent) high-net worth individuals. Such commitments are generally drawn down from investors on an as-needed basis to fund investments over a specified term. All of our private equity and private real estate funds are commitment structured funds, except certain core+ and real estate debt funds, which are structured like hedge funds where all (or a portion) of the committed capital is funded on or promptly after the investor's subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our Real Estate business also includes a NYSE-listed real estate investment trust, or REIT, and a registered open-ended investment company complex, each of which is externally managed by a BREDS-owned adviser. Our credit-focused funds are generally commitment structured funds or open-ended where the investor's capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Ten credit-focused vehicles that we manage or sub-advise in whole or in part are registered investment companies (including business development companies). The CLO vehicles we manage are structured investment vehicles that are generally private companies with limited liability. Most of our funds of hedge funds as well as our hedge funds are structured as funds where the investor's capital is fully funded into the fund upon the subscription for interests in the fund. Our private investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of 1940, or Advisers Act. Substantially all of the day-to-day operations of each investment vehicle are typically carried out by the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from funds or fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment vehicles and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or 1940 Act, in reliance on the statutory exemptions provided by Section 3(c)(7) or Section 7(d) thereof or, typically in the case of vehicles formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment vehicles privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are qualified purchasers as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act exempts from its registration requirements privately placed investment vehicles whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the United States Securities and Exchange Commission (SEC), Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment vehicle all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers. With respect to BXMT, which is externally managed by a BREDS-owned entity pursuant to a management agreement, it conducts its operations in a manner that allows it to maintain its REIT qualification and also avail itself of the statutory exemption provided by Section 3(c)(5)(C) of the 1940 Act for companies engaged primarily in investment in mortgages and other liens or investments in real estate.

In some cases, one or more of our investment advisers, including GSO, BAAM and BREDS advisers, advises or sub-advises funds registered under the 1940 Act.

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In addition to having an investment adviser, each investment fund that is a limited partnership, or partnership fund, also has a general partner that makes all operational and investment decisions relating to the conduct of the investment fund's business. Furthermore, all decisions concerning the making, monitoring and disposing of investments are made by the general partner. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. These decisions are made by the investment fund's general partner in its sole discretion. With the exception of certain of our funds of hedge funds, hedge funds, certain credit-focused funds, and other funds or separately managed accounts for the benefit of one or more specified investors, third party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds provide that in the event certain key persons in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a specified percentage (including, in certain cases, a simple majority) vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition, the governing agreements of some of our investment funds provide that investors have the right to terminate, for any reason, the investment period by a vote of 75% of the investors in such fund.

### **Incentive Arrangements / Fee Structure**

#### ***Management Fees***

The following describes the management fees received by the Blackstone investment advisers.

The investment adviser of each of our carry funds generally receives an annual management fee based upon a percentage of the fund's capital commitments, invested capital and/or undeployed capital during the investment period and the fund's invested capital or investment fair value after the investment period, except that the investment advisers to certain of our credit-focused carry funds and core+ real estate funds receive an annual management fee that is based upon a percentage of invested capital or net asset value throughout the term of the fund. These management fees are payable on a regular basis (typically quarterly) in the contractually prescribed amounts over the life of the fund. Depending on the base upon which management fees are calculated, negative performance of one or more investments in the fund may reduce the total management fee paid, but not the fee rate.

The investment adviser of each of our funds that are structured like hedge funds, or of our funds of hedge funds, registered mutual funds and separately managed accounts that invest in hedge funds, generally receives an annual management fee that is based upon a percentage of the fund's or account's net asset value. These management fees are also payable on a regular basis (typically quarterly). These funds often afford investors increased liquidity through annual, semi-annual or quarterly, or in the case of registered mutual funds, daily, withdrawal or redemption rights, in some cases following the expiration of a specified period of time when capital may not be withdrawn. The amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor's capital account grows and will proportionately decrease as the net asset value of each investor's capital account decreases.

The investment adviser of each of our CLOs and CDOs typically receives annual management fees based upon a percentage of each fund's total assets, subject to certain performance measures related to the underlying assets the vehicle owns, and additional management fees which are incentive-based (that is, subject to meeting certain return criteria). These management fees are also payable on a regular basis (typically quarterly). The term of each CLO and CDO varies from deal to deal and may be subject to early redemption or extension; typically, however, a CLO or CDO will be wound down within nine to eleven years of being launched. While the management fees tend to be approximately 0.5% per annum of each fund's total assets for the term of the deal, the quantum of fees will decrease as the fund deleverages toward the end of its term.

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The investment adviser of our separately managed accounts typically receives annual management fees typically based upon a percentage of each account's net asset value or invested capital. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. The management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days' prior notice.

The investment adviser of each of our credit-focused registered and non-registered investment companies typically receives annual management fees based upon a percentage of each company's net asset value or total managed assets. The management fees we receive from the registered investment companies we manage are generally paid on a regular basis (typically quarterly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 30 days' prior notice.

The investment adviser of BXMT receives annual management fees based upon a percentage of BXMT's net proceeds received from equity offerings and accumulated core earnings (which is generally equal to its net income, calculated under accounting principles generally accepted in the United States of America (GAAP), excluding certain non-cash and other items), subject to certain adjustments. The management fees we receive from managing BXMT are paid quarterly and increase or decrease based on, among other things, BXMT's net proceeds received from equity offerings and accumulated core earnings (subject to certain adjustments).

For additional information regarding the management fee rates we receive, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Revenue Recognition - Management and Advisory Fees, Net.

***Incentive Fees***

The general partners or similar entities of each of our hedge fund structures receive performance-based allocation fees (incentive fees) of generally up to 20% of the applicable fund's net capital appreciation per annum, subject to certain net loss carry-forward (known as a high water mark) and/or other hurdle provisions. In some cases, the investment adviser of each of our funds of hedge funds, separately managed accounts that invest in hedge funds and certain non-U.S. registered investment companies is entitled to an incentive fee of generally up to 15% of the applicable investment vehicle's net appreciation, subject to a high water mark and in some cases a preferred return. In addition, for the business development companies we sub-advise, we receive incentive fees of 10% of the vehicle's net appreciation per annum (in certain cases paid quarterly), subject to a preferred return. The external manager of BXMT is entitled to an incentive fee, payable quarterly, in an amount, not less than zero, equal to the product of (a) 20% and (b) the excess of (i) BXMT's core earnings for the previous 12-month period over (ii) an amount equal to 7% per annum multiplied by BXMT's average outstanding equity (as defined in the management agreement), provided that BXMT's core earnings over the prior three-year period is greater than zero. In addition, the general partner of certain BPP funds is entitled to an incentive fee allocation of up to 10% of excess profits, if any limited partner achieves a cumulative investment return in excess of a 7% hurdle rate. Incentive Fees are realized at the end of a measurement period, typically annually (but in certain real estate funds the measurement period is as long as three years). Once realized, such fees are not subject to clawback.

***Carried Interest***

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.

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The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a realized gain basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-focused funds, real estate debt funds, multi-asset class investment funds and secondary funds of funds are generally entitled to a carried interest that ranges from 10% to 20% depending on the specific fund. Net realized income or loss is not netted between or among funds.

For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 5% to 10%, subject to a catch-up allocation to the general partner. If, at the end of the life of a carry fund (or earlier with respect to our real estate, real estate debt and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in a carry fund's life, (a) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) of the fund's net profits over the life of the fund, or (in certain cases) (b) the carry fund has not achieved investment returns that exceed the preferred return threshold, then we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which the relevant general partner we are ultimately entitled on an after tax basis. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans.

Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. To the extent we are required to fulfill a clawback obligation, however, our general partner may determine to decrease the amount of our distributions to common unitholders. The clawback obligation operates with respect to a given carry fund's own net investment performance only and carried interest of other funds is not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share of the clawback obligation then due, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50-67%) although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2015, if the various carry funds were liquidated at their current carrying value.

For additional information concerning the clawback obligations we could face, see Item 1A. Risk Factors. We may not have sufficient cash to pay back clawback obligations if and when they are triggered under the governing agreements with our investors.

### ***Advisory Fees***

Many of our investment advisers, especially private equity and real estate advisers, receive customary fees (for example, acquisition fees or origination fees) upon consummation of many of the funds' transactions, receive monitoring fees from many of the funds' portfolio companies for continued advice from the investment adviser, and may from time to time receive disposition and other fees in connection with their activities. The acquisition fees that they receive are generally calculated as a percentage (that generally can range up to 1%) of the total enterprise value of the acquired entity. Most of our carry funds are required to reduce the management fees charged to their limited partner investors by 50% to 100% of such limited partner's share of the transaction fees and certain other fees that they receive.

### **Capital Invested In and Alongside Our Investment Funds**

To further align our interests with those of investors in our investment funds, we have invested the firm's capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital

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commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the limited partner commitments of any particular fund. See Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity Needs for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on a variety of factors, including estimates regarding liquidity over the estimated time period during which commitments will be funded, estimates regarding the amounts of capital that may be appropriate for other opportunities or other funds we may be in the process of raising or are considering raising, prevailing industry standards with respect to sponsor commitments and our general working capital requirements. In many cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time offer to our senior managing directors and employees a part of the funded or unfunded general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional co-investments with the investment funds. Our personnel, as well as Blackstone itself, also have the opportunity to make co-investments, which we refer to as side-by-side investments, with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by directors, officers, senior managing directors, employees and certain affiliates of Blackstone. These investments are generally made pursuant to a binding election, subject to certain limitations, made once a year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.

## **Competition**

The asset management industry is intensely competitive, and we expect it to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, access to and retention of qualified personnel, reputation, range of products and services, innovation and price.

We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. With respect to outside investors, many have increased the amount of commitments they are making to alternative investment funds. However, any increase in the allocation of amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Several of these competitors have significant amounts of capital and many of them have investment objectives similar to ours, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Competitors may also be subject to different regulatory regimes or rules that may provide them more flexibility or better access to pursue transactions or raise capital for their investment funds.

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In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment or be perceived by sellers as otherwise being more desirable bidders, which may provide them with a competitive advantage in bidding for an investment.

In all of our businesses, competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see Item 1A. Risk Factors – Risks Related to Our Business – The asset management business is intensely competitive.

## **Employees**

As of December 31, 2015, we employed approximately 2,060 people, including our 104 senior managing directors and approximately 790 other investment professionals. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

## **Regulatory and Compliance Matters**

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients, and general anti-fraud prohibitions.

Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our capital markets services business and certain of our fund marketing and distribution, is registered as a broker-dealer with the SEC and is subject to regulation and oversight by the SEC, is a member of the Financial Industry Regulatory Authority, or FINRA, and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entity. State securities regulators also have regulatory or oversight authority over our broker-dealer entity.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including the implementation of a supervisory control system over the securities business, sales practices, conduct of and compensation in connection with public and private securities offerings, use and safekeeping of customers' funds and securities, maintenance of adequate net capital, record keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of FINRA, Blackstone Advisory Partners L.P. is subject to the SEC's uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the capital structure of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

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Pursuant to the U.K. Financial Services and Markets Act 2000, or FSMA, certain of our subsidiaries are subject to regulations promulgated and administered by the Financial Conduct Authority ( FCA ). The Blackstone Group International Partners LLP ( BGIP ) and GSO Capital Partners International LLP ( GSO International ) are both authorized and regulated by the FCA in the United Kingdom. The FSMA and rules promulgated thereunder form the cornerstone of legislation which governs all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures.

In addition, each of the closed-end and open-end mutual funds and investment management companies we manage is registered under the 1940 Act. The mutual funds and investment management companies and the entities that serve as those vehicles' investment advisers are subject to the 1940 Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions.

Blackstone/GSO Debt Funds Management Europe Limited is authorized by the Central Bank of Ireland and is authorized to act as a manager of Irish non-UCITS Collective Investment Schemes. Blackstone/GSO Debt Funds Management Europe II Limited is authorized by the Central Bank of Ireland as an Alternative Investment Fund Manager. Certain Blackstone operating entities are licensed and subject to regulation by financial regulatory authorities in Japan, Hong Kong, Australia and Singapore: The Blackstone Group Japan K.K., a financial instruments firm, is registered with Kanto Local Finance Bureau (Kin-sho) and regulated by the Japan Financial Services Agency; The Blackstone Group (HK) Limited is regulated by the Hong Kong Securities and Futures Commission; The Blackstone Group (Australia) Pty Limited ACN 149 142 058 holds an Australian financial services license authorizing it to provide financial services in Australia (AFSL 408376), and is regulated by the Australian Securities and Investments Commission; and The Blackstone Singapore Pte. Ltd is regulated by the Monetary Authority of Singapore (Company Registration Number: 201020503E).

The SEC and various self-regulatory organizations have in recent years increased their regulatory activities, including regulation, examination and enforcement in respect of asset management firms.

As described above, certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. Our Chief Legal Officer and Chief Compliance Officer, together with the Chief Compliance Officers of each of our businesses, supervise our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, personal securities trading, marketing practices, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest, the allocation of investment opportunities, collection of fees and expense allocation.

Our compliance group also monitors the information barriers that we maintain between the public and private side of Blackstone's businesses. We believe that our various businesses' access to the intellectual knowledge and

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contacts and relationships that reside throughout our firm benefits all of our businesses. To maximize that access without compromising our compliance with our legal and contractual obligations, our compliance group oversees and monitors the communications between groups that are on the private side of our information barrier and groups that are on the public side, as well as between different public side groups. Our compliance group also monitors contractual obligations that may be impacted and potential conflicts that may arise in connection with these inter-group discussions.

In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ). We have an Internal Audit department with a global mandate and dedicated resources that provides risk-based audit, Sarbanes-Oxley compliance, and advisory practices. Internal Audit, which reports directly to the audit committee of the board of directors of our general partner, aims to provide reasonable, independent, and objective assurance to our management and the board of directors of our general partner that risks are well managed and that controls are appropriate and effective.

Our enterprise risk management practices include review and monitoring of our business, investment and other key risks at various levels, including at the fund, business unit and corporate level. Committees comprised of members of management and representatives of various business units and corporate functions consider and evaluate legal, reputational, operational, control and other risks attendant to our business. In addition, senior management regularly reports to the audit committee of the board of directors of our general partner on risk matters, including by providing periodic risk reports, an overview of management s view of key risks to the firm and detailed assessments of selected risks.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see Item 1A. Risk Factors Risks Related to Our Business Regulatory changes in the United States could adversely affect our business and Item 1A. Risk Factors Risks Related to Our Business Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.

## **Available Information**

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the SEC. These filings are available to the public over the internet at the SEC s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal internet address is [www.blackstone.com](http://www.blackstone.com). We make available free of charge on or through [www.blackstone.com](http://www.blackstone.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.



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**ITEM 1A. RISK FACTORS**

**Risks Related to Our Business**

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds and reducing the ability of our investment funds to raise or deploy capital, each of which could materially reduce our revenue, earnings and cash flow and adversely affect our financial prospects and condition.*

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

Turmoil in the global financial markets, such as occurred in 2008-2009 and 2015, can provoke significant volatility of equity and debt securities prices. This can have a material and rapid impact on our mark-to-market valuations particularly with respect to our public holdings and credit investments. A lack of credit resulting from turmoil in the global financial markets in the future may materially hinder the initiation of new, large-sized transactions for our private equity and real estate segments and adversely impact our operating results. As publicly traded equity securities represent a higher proportion of the assets of many of our carry funds than has typically been the case, stock market volatility may have a greater impact on our reported results than in the past and declines in the stock market may adversely affect our results, including our revenues and net income. Although base rates are inside of historical averages, financing costs have increased significantly in recent months, and there is concern that the monetary policy of central banks, including of the U.S. Federal Reserve, as well as other market factors, including, without limitation, gross domestic product growth in the U.S., European Union and China, commodity prices and performance of the energy credit market, may adversely impact the cost and availability of credit. In addition, many emerging economies continue to experience weakness, tighter credit conditions and a decreased availability of foreign capital. Continued weakness could result in lower returns than we anticipated at the time certain of our investments were made.

Although interest rates have been at historically low levels for the last few years, the U.S. Federal Reserve recently raised rates and has indicated an intention to continue raising rates in the coming months, and a period of sharply rising interest rates could have an adverse impact on our business.

Many investments made by our funds are highly illiquid, and we may not be able to realize investments in a timely manner. Challenging market and economic conditions, including volatile equity and credit markets, have resulted in reduced opportunities for our funds to exit and realize value from their existing investments and lower than expected returns on existing investments. Although the equity markets are not the only means by which we exit investments, should challenges in the equity market continue, our funds may experience increased difficulty in realizing value from investments. Challenging market and economic conditions have also made it and may in the future make it more difficult and competitive to find suitable investments for the funds to effectively deploy capital. This could adversely affect our performance and ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds' portfolio companies may experience adverse operating performance, decreased revenues, credit rating downgrades, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our investment funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds.

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performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company and a significant negative impact to the investment fund's performance and consequently to our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-focused funds. Estimates or projections of market conditions, commodity prices and supply and demand dynamics are key factors in evaluating potential investment opportunities and valuing the investments made by our funds. These estimates are subject to wide variances based on changes in market conditions, underlying assumptions, commodity prices and technical or investment-related assumptions. We are unable to predict whether and to what extent economic and market conditions will improve. Even if such conditions do improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

In addition, the performance of the investments made by our credit and equity funds in the energy and natural resources markets are also subject to a high degree of market risk. See Investments by our funds in the power and energy industries involve various operational, construction, regulatory and market risks that could adversely affect our results of operations, liquidity and financial condition.

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

***Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

A significant contraction in the market for debt financing, such as the contraction that occurred in 2008 and 2009 or other adverse change, including any regulatory changes that would limit banks' ability to provide debt financing, to us relating to the terms of such debt financing with, for example, higher rates, higher equity requirements, and/or more restrictive covenants, particularly in the area of acquisition financings for private equity and real estate transactions, would have a material adverse impact on our business. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets and/or regulatory changes render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the markets and/or regulatory changes make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

***A decline in the pace or size of investment by our private equity and real estate funds or an increase in the amount of transaction and monitoring fees we share with our investors would result in our receiving less revenue from transaction and monitoring fees.***

The transaction and monitoring fees that we earn are driven in part by the pace at which our private equity and real estate funds make investments and the size of those investments. Any decline in that pace or the size of such

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investments would reduce our transaction and monitoring fees. Many factors could cause such a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of certain fees we share with our investors. As a result, for our more recent funds, the percentage of transaction and monitoring fees that we share with our investors has increased, in many cases to 100%, as compared to historical percentages, such as with our recent fundraise in our flagship private equity fund (BCP VII). This will reduce the amount of fee revenue we earn from transaction and monitoring fees. To the extent such increases continue in future fundraises, it would continue to decrease such fee revenue.

***Our revenue, earnings, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.***

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. In particular, economic and market conditions may lead to volatility in the mark-to-market valuations of investments made by our funds, particularly in respect of our public investments. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund.

The timing and receipt of carried interest also varies with the life cycle of our carry funds. During periods in which a relatively large portion of our assets under management is attributable to carry funds and investments in their harvesting period, our carry funds would make larger distributions than in the fundraising or investment periods that precede harvesting. During periods in which a significant portion of our assets under management is attributable to carry funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

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With respect to most of our funds of hedge funds as well as our credit-focused, and real estate debt and core+ funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return threshold. Certain of these funds also have high water marks whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

*Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.*

We use cash to (a) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital for business expansion, (c) pay operating expenses and other obligations as they arise, (d) fund capital expenditures, (e) service interest payments on our debt and repay debt, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our initial public offering ( IPO ), our \$600 million debt offering in August 2009, our \$400 million debt offering in September 2010, our \$650 million debt offering in August 2012, our \$500 million debt offering in April 2014, our \$350 million debt offering in April 2015, and our 300 million debt offering in May 2015, our principal sources of cash are: (a) Fee Related Earnings, (b) Realized Performance Fees net of related profit sharing interests that are included in Compensation and (c) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We have also entered into a \$1.1 billion revolving credit facility with a final maturity date of May 29, 2019. Our long-term debt totaled \$2.8 billion in borrowings from the 2009, 2010, 2012, 2014 and 2015 bond issuances and we had no borrowings outstanding against our \$1.1 billion revolving credit facility as of December 31, 2015. At the end of 2015, we had \$1.8 billion in cash, \$2.2 billion invested in our Treasury Cash Management Strategies, \$159.8 million invested in liquid Blackstone funds, \$1.9 billion invested in illiquid Blackstone funds and \$129.5 million invested in other investments.

If the global economy and conditions in the financing markets worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations and make distributions to our unitholders. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets, which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds, or to make quarterly distributions to our unitholders. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

*We depend on our founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.*

We depend on the efforts, skill, reputations and business contacts of our founder, Stephen A. Schwarzman, and other key senior managing directors, the information and deal flow they generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals.

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Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

***Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Most of our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence Blackstone Holdings Partnership Agreements ) and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings Partnership Units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled to them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings Partnership Units.

Additionally, the retention of an increasingly larger portion of the Blackstone Holdings Partnership Units held by senior managing directors is not dependent upon their continued employment with us as those equity interests continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See Risks

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**Related to United States Taxation** Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business in the future to senior managing directors and other personnel would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

Our plan, to the extent that market conditions permit, is to continue to grow our investment businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to the investment management and financial advisory businesses. Accordingly, we may pursue growth through acquisitions of other investment management or advisory companies, acquisitions of critical business partners or other strategic initiatives. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (a) the required investment of capital and other resources, (b) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (c) the diversion of management's attention from our core businesses, (d) assumption of liabilities in any acquired business, (e) the disruption of our ongoing businesses, (f) the increasing demands on or issues related to the combining or integrating operational and management systems and controls, (g) compliance with additional regulatory requirements, and (h) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For example, our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. These activities have and will continue to impose additional compliance burdens on us and could also subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. See We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity. In addition, if a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

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***If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.***

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (a) the availability of suitable opportunities, (b) the level of competition from other companies that may have greater financial resources, (c) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities, (d) our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays and (e) our ability to identify and enter into mutually beneficial relationships with venture partners. Moreover, even if we are able to identify and successfully complete an acquisition, we may encounter unexpected difficulties or incur unexpected costs associated with integrating and overseeing the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

***The spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses could result in substantial tax liability for us and/or our unitholders.***

On October 1, 2015, we completed the previously-announced spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses and combined these businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman, to form an independent publicly traded company. We may be responsible for U.S. federal income tax liabilities that relate to the spin-off if certain internal reorganization transactions in connection with the spin-off fail to qualify as tax-free, and our unitholders may also incur U.S. federal income tax liability in such circumstances.

***The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.***

Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Some legislative proposals have provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations. If we were taxed as a U.S. corporation or held all ISPIs through U.S. corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, common unitholders could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

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The Obama administration has made similar proposals that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposals would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2015 and prior years.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, New York has considered legislation which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity-level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. If any state were to impose a tax upon us as an entity, our distribution to common unitholders would be reduced.

### ***Additional proposed changes in the U.S. and foreign taxation of businesses could adversely affect us.***

Congress, the Organization for Economic Co-operation and Development ( OECD ) and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting ( BEPS ) project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. Additionally, the Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, anti-inversion rules, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity-level income tax similar to the corporate income tax. Several of these proposals for reform, if enacted by the United States or by other countries in which we or our affiliates invest or do business, could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

Other proposals by members of Congress have contemplated the migration of the United States from a worldwide system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The territorial tax system proposals envisage a revenue neutral result and consequently include numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us. A variation of this proposal contemplates a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. Such proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Speaker of the House Paul Ryan has also identified comprehensive tax reform as a priority for the next Congress. Whether these or other proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

### ***The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.***

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards ( IFRS ) instead of under GAAP. IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board ( IASB ) and are more focused on objectives and principles and less reliant on



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detailed rules than GAAP. Today, there remain significant and material differences in several key areas between GAAP and IFRS which would affect Blackstone. Additionally, GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

### ***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, communications and other data processing systems. Our systems may fail to operate properly or become disabled as a result of tampering or a breach of our network security systems or otherwise. In addition, our systems face ongoing cybersecurity threats and attacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If our systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds, regulatory intervention or reputational damage.

In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where many of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the funds' operations and could affect our reputation and hence adversely affect our businesses.

### ***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business.***

Our business is subject to extensive regulation, including periodic examinations, by governmental agencies and self-regulatory organizations in the jurisdictions in which we operate around the world. These authorities have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are also empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against us or our personnel. Moreover, the financial services industry generally is presently the subject of heightened scrutiny, and the SEC has

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specifically focused on private equity. In that connection, the SEC's list of examination priorities includes, among other things, private equity firms' collection of fees and allocation of expenses, their marketing and valuation practices and allocation of investment opportunities. We regularly are subject to requests for information and informal or formal investigations by the SEC and other regulatory authorities, with which we routinely cooperate and, in the current environment, even historical practices that have been previously examined are being revisited. For example, in October 2015, without admitting or denying any wrongdoing, three of our private equity fund advisors consented to the entry of an order settling certain matters in connection with funds formed many years ago relating to historical monitoring fee termination practices and historical practices relating to the application of disparate vendor discounts to Blackstone and to our funds that were charged in 2011. See Item 3. Legal Proceedings for additional information. SEC actions and initiatives can have an adverse effect on our financial results, including as a result of the imposition of a sanction or changing our historic practices. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new clients.

### ***We rely on complex exemptions from statutes in conducting our asset management activities.***

We regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or Securities Act, the Exchange Act, the 1940 Act, the Commodity Exchange Act and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. For example, in 2014, the SEC amended Rule 506 of Regulation D under the Securities Act to impose "bad actor" disqualification provisions which ban an issuer from offering or selling securities pursuant to the safe harbor rule in Rule 506 if the issuer, or any other "covered person," is the subject of a criminal, regulatory or court order or other disqualifying event under the rule which has not been waived. The definition of "covered person" under the rule includes an issuer's directors, general partners, managing members and executive officers; affiliates who are also issuing securities in the offering; beneficial owners of 20% or more of the issuer's outstanding equity securities; and promoters and persons compensated for soliciting investors in the offering. Accordingly, our ability to rely on Rule 506 to offer or sell securities would be impaired if we or any "covered person" is the subject of a disqualifying event under the rule and we are unable to obtain a waiver. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements.

### ***We and our affiliates from time to time are required to report specified dealings or transactions involving Iran or other sanctioned individuals or entities.***

The Iran Threat Reduction and Syrian Human Rights Act of 2012 (ITRA) expands the scope of U.S. sanctions against Iran. More specifically, Section 219 of the ITRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Companies that may be considered our affiliates have publicly filed and/or provided to us the disclosures reproduced on Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2015, August 6, 2015 and November 5, 2015 as well as Exhibit 99.1 of this Annual Report on Form 10-K, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in this report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to

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initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

***Regulatory changes in the United States could adversely affect our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the regulatory environment in which we operate in the United States. There has been active debate over the appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. For example, senior officials at the SEC have recently emphasized their intention to implement a "broken windows" policy, meaning that the SEC will pursue even the most minor violations on the theory that publicly pursuing smaller matters will reduce the prevalence of larger matters. The Director of the SEC's Division of Enforcement has described "broken windows" as a zero tolerance policy.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which imposes significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to conduct our business:

As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC. Private equity and hedge fund advisers registered with the SEC under the Advisers Act are required to maintain extensive records and to file reports.

On December 16, 2015, the Commodity Futures Trading Commission ("CFTC") published a final rule governing margin requirements for uncleared swaps entered into by swap dealers and major swap participants subject to CFTC regulation. The final rule, which becomes effective on April 1, 2016, generally requires covered swap entities, subject to certain thresholds and exemptions for inter-affiliate swaps, to collect and post margin in respect of uncleared swap transactions with other covered swap entities and financial end-users. These newly adopted rules on margin requirements for uncleared swaps could adversely affect our business, including our ability to enter such swaps or our available liquidity.

The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. On March 2, 2011, the SEC proposed a rule, as part of a joint rulemaking effort with U.S. federal banking regulators, that would apply to covered financial institutions, including registered investment advisers and broker-dealers that have total consolidated assets of at least \$1 billion, and imposes substantive and procedural requirements on incentive-based compensation arrangements. The proposed rule remains pending and may be revised and re-proposed by the agencies in 2016 for additional notice and comment. The application of this rule to us could limit our ability to recruit and retain investment professionals and senior management executives.

The Dodd-Frank Act, under what has become known as the "Volcker Rule," generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, "banking entities") from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule became effective as a matter of statute on July 21, 2012, but banking entities had a so-called "conformance period," which ran until July 21, 2015, to wind down, sell, transfer or otherwise conform their investments and activities to the Volcker Rule, absent an

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extension by the Federal Reserve or an exemption for certain permitted activities. On December 10, 2013, the Federal Reserve and other federal regulatory agencies issued final rules implementing the principal components of the Volcker Rule. For investments in and relationships with certain funds that were in place prior to December 31, 2013, the Federal Reserve announced its intent to give banking entities until July 21, 2017 to comply with the Volcker Rule. In addition, an extension of up to five years may be sought by banking entities for investments in certain illiquid funds. We do not currently anticipate that the Volcker Rule will adversely affect our fundraising to any significant extent.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

There has been increasing commentary amongst regulators and intergovernmental institutions, including the Financial Stability Board and International Monetary Fund, on the topic of so-called shadow banking, a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system. While, at this stage, it is difficult to predict the scope of any new regulations, if regulators were to extend regulatory and supervisory requirements to certain sectors or funds of our business, such as capital and liquidity buffer requirements, currently applicable to banks, or if we are considered to be engaged in shadow banking, the regulatory and operating costs associated therewith could adversely impact the implementation of our business. In the United States:

The process established by the Dodd-Frank Act for designation of systemically important non-bank firms has provided a means for ensuring that the perimeter of prudential regulation can be extended as appropriate to cover large shadow banking institutions. The Dodd-Frank Act established the Financial Stability Oversight Council (the FSOC), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system's systemic risk regulator. The FSOC has the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies determined to be systemically important for supervision by the Federal Reserve. Such designation is applicable to companies where material distress could pose risk to the financial stability of the United States.

On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate non-bank financial companies as systemically important. The final rule and interpretive guidance details a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC applies a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC considers whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and is expected to, evolve over time. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve. To date, the Federal Reserve has made designations of four non-bank companies as systemically important subject to Federal Reserve supervision, none of which included asset management firms or funds.

On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas.

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In connection with the work of the FSOC, on October 31, 2011, the SEC and the CFTC issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. This final rule requires large private equity fund advisers, such as Blackstone, to submit reports, on Form PF, focusing primarily on the extent of leverage incurred by their funds' portfolio companies, the use of bridge financing and their funds' investments in financial institutions.

Rule 206(4)-5 under the Advisers Act regarding 'pay to play' practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser's employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state level regarding 'pay to play' practices by investment advisers.

In June 2011, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, announced the final framework for a comprehensive set of capital and liquidity standards, commonly referred to as 'Basel III,' for internationally active banking organizations. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Implementation of Basel III will require implementing regulations and guidelines by member states. In July 2013, the U.S. federal banking regulators announced the adoption of final regulations to implement Basel III for U.S. banking organizations, subject to various transition periods. Compliance with the Basel III standards may result in significant costs to banking organizations, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit. See 'Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.' In the United States, regulations have been proposed by the federal banking agencies, but they remain pending.

In March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. In November 2015, in connection with the banking agencies' most recent review of large credits under the Shared National Credit review, the agencies noted high credit risk and weaknesses related to leveraged lending and for loans related to oil and gas exploration, production and energy services. To the extent that such guidance limits the amount or cost of financing we are able to obtain for our transactions, the returns on our investments may suffer. In addition, in December 2015, the U.S. federal banking agencies issued a statement cautioning financial institutions on rising concentrations in commercial real estate and an easing of related underwriting standards.

In addition, in December 2015, the SEC proposed a new rule that would reduce the ability of registered investment companies to utilize derivatives and other instruments that could be deemed to leverage a fund's portfolio, which if adopted in its current form, may impact the ability of certain of our registered funds to continue pursuing certain aspects of their current investment strategies.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in

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regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

***Changes in U.S. and foreign tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act ( FATCA ), all entities in a broadly defined class of foreign financial institutions ( FFIs ) are required to comply with a complicated and expansive reporting regime or be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors. Other countries such as the United Kingdom and the Cayman Islands have implemented regimes similar to that of FATCA. Compliance with such regimes could result in increased administrative and compliance costs and could subject our investment entities to increased non-U.S. withholding taxes.

***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

The European Union Alternative Investment Fund Managers Directive (the Directive ), as transposed into national law within the member states of the European Union (the EU ), established a new regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. It is intended that the Directive will apply in the additional member states of the European Economic Area ( EEA ), namely, Norway, Iceland and Liechtenstein, but to date the Directive has not yet been referenced in the Agreement on the European Economic Area (expected in 2016) (but for convenience we refer to the EEA). The Directive regulates managers established in or with a registered office in the EEA managing one or more alternative investments funds but it also impacts non EEA-based managers, such as our affiliates, when they market securities of alternative investment funds in the EEA. We have had to comply with certain requirements of the Directive in order to market our investment funds to professional investors in the EEA, including compliance with prescribed pre-investment disclosures, prescribed annual report disclosures, prescribed periodic reporting to regulators in respect of each fund marketed and asset-stripping restrictions in relation to the acquisition of non-listed companies or issuers established in the EEA (these restrictions prohibit certain distributions to shareholders for 24 months following closing of an acquisition). The Directive makes provision for member states to permit non-EEA managers to market funds to professional investors under national private placement rules, but there is no requirement for member states to operate or maintain a national private placement regime and, if they do, the member state is free to impose rules that are stricter than the minimum required. In some cases this has restricted our ability to market our investment funds, e.g., in those states that do not operate national private placement and/or impose such requirements that make it disproportionately burdensome to do so. It is possible that, from some future date, but not earlier than July 2019, we will be required to comply with the Directive in full in order to market our investment funds to professional investors in the EEA, and we may elect to comply at an earlier point in time (if that option should become available) in order to facilitate such marketing. In either case this would subject us to a number of additional requirements, including rules relating to the remuneration of certain personnel, certain capital requirements for alternative

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investment fund managers, leverage oversight for each investment fund, liquidity management, and retention of depositaries for each investment fund. Compliance with the requirements of the Directive will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fundraising opportunities.

Following the financial crisis the Financial Stability Board ( FSB ) has taken on an increasingly important role in promoting the reform of international financial regulation through coordinating national financial authorities and international standard-setting bodies in their development of regulatory, supervisory and financial sector policies.

One of the risks identified by the FSB to the stability of the financial system is credit intermediation (involving maturity and liquidity transformation) and/or a build-up of leverage by non-bank entities so-called shadow banking . The FSB has proposed adoption of a two-pronged strategy to address financial stability risks in shadow banking: (a) create a monitoring framework to track developments in shadow banking; and (b) coordinate and contribute to the development of policies to strengthen oversight and regulation of shadow banking, focusing on measures to: (i) mitigate risks in banks interactions with shadow banking entities; (ii) reduce the susceptibility of money market funds to runs ; (iii) improve transparency and align the incentives in securitization; (iv) dampen pro-cyclicality and other financial stability risks in securities financing transactions such as repos and securities lending; and (v) assess and mitigate financial stability risks posed by other shadow banking entities and activities.

In December 2015 (effective January 1, 2017), the European Banking Authority ( EBA ) produced guidelines to set appropriate aggregate limits to shadow banking entities when carrying out banking activities. While most alternative investment funds are excluded from the definition of shadow banking entity, funds that use leverage on a substantial basis at fund level or have certain third party lending exposures are within the definition. When dealing with shadow banking entities, the EEA financial institution would be required to implement additional effective processes (including with respect to due diligence) and set internal aggregate and individual limits to such exposures where they exceed 0.25% of the institution s eligible capital. While the guidelines do not themselves introduce a quantitative limit to institutions exposures to shadow banking entities at the individual or aggregate exposure level, they place the responsibility on the banking sector to demonstrate that risks are managed effectively. Affected institutions will be required to set internal aggregate and individual limits to exposures to individual shadow banking entities which could limit or restrict the availability of credit and/or increase the cost of credit from these institutions for impacted funds.

Changes in tax laws by foreign jurisdictions could result from BEPS projects being undertaken by the OECD. The OECD, which represents a coalition of member countries, is contemplating changes to numerous international tax principles, including interest deductibility, transfer pricing, and eligibility for the benefits of double tax treaties. These contemplated changes, if adopted by individual countries, could increase tax uncertainty and/or costs faced by us, our portfolio companies and our investors, change our business model and cause other adverse consequences. The timing or impact of these proposals is unclear at this point. In addition, tax laws, regulations and interpretations are subject to continual changes, which could adversely affect our structures or returns to our investors. For instance, various countries have adopted or proposed tax legislation that may adversely affect portfolio companies and investment structures in countries in which our funds have invested and may limit the benefits of additional investments in those countries.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. Blackstone s non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the Private Equity Growth Capital Council, the British Private Equity and Venture Capital Association and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

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***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.***

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, we issued \$600 million of ten-year senior notes at a rate of 6.625% per annum, in September 2010, we issued \$400 million of ten-year senior notes at a rate of 5.875% per annum, in August 2012, we issued \$400 million of ten-year senior notes at a rate of 4.75% per annum and \$250 million of thirty-year senior notes at a rate of 6.25% per annum, in April 2014, we issued \$500 million of thirty-year senior notes at a rate of 5% per annum, in April 2015, we issued \$350 million of thirty-year senior notes at a rate of 4.45% per annum, and in May 2015, we issued 300 million of ten-year senior notes at a rate of 2% per annum. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under "Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments." In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them, or that we will be able to refinance outstanding notes when they mature. We have a credit facility which provides for revolving credit borrowings that has a final maturity date of May 29, 2019. As borrowings under the facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or by issuing equity, which would dilute existing unitholders. We could also repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce distributions to our unitholders. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds' use of leverage to finance investments.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against the financial services industry in general have been increasing. The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject the companies, funds and us to the risk of third party litigation arising from investor dissatisfaction with the performance of those investment funds, alleged conflicts of interest, the activities of our portfolio companies and a variety of other litigation claims. From time to time we, our funds and our portfolio companies have been and may be subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and/or attempt to enjoin them. Please see "Item 3. Legal Proceedings" below for additional information.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

The activities of our capital markets services business may also subject us to the risk of liabilities to our clients and third parties, including our clients' stockholders, under securities or other laws in connection with transactions in which we participate.

In addition, our plan, to the extent that market conditions permit, is to continue to grow our investment businesses and expand into new investment strategies, geographic markets, businesses and distribution channels, including the retail channel. To the extent we distribute products through new channels, including through



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unaffiliated firms, we may not be able to effectively monitor or control the manner of their distribution, which could result in litigation against us, including with respect to, among other things, claims that products distributed through such channels are distributed to customers for whom they are unsuitable or distributed in any other inappropriate manner. In addition, the distribution of products through new channels whether directly or through market intermediaries, including in the retail channel, could expose us to additional regulatory risk in the form of allegations of improper conduct and/or actions by state and federal regulators against us with respect to, among other things, product suitability, conflicts of interest and the adequacy of disclosure to customers to whom our products are distributed through those channels.

If any private lawsuits or regulatory actions were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities, our new lines of business or distribution channels, or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could similarly subject us to liability and reputational damage and also harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

In recent years, the U.S. Department of Justice and the U.S. Securities and Exchange Commission have devoted greater resources to enforcement of the Foreign Corrupt Practices Act (FCPA). In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA, the UK anti-bribery laws or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

In addition, we may also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest. For example, financial fraud or other deceptive practices at our portfolio companies, or failures by personnel at our portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements, could cause significant reputational and business harm to us. Such misconduct may undermine our due diligence efforts with respect to such portfolio companies and could negatively affect the valuations of the investments by our funds in such portfolio companies. In addition, we may face an increased risk of such misconduct to the extent our investment in non-U.S. markets, particularly emerging markets, increases.

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***Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.***

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund's life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds' performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds' continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee revenue. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue. A significant number of fund sponsors have recently decreased the amount of fees they charged investors for managing existing or successor funds as a direct result of poor fund performance.

***Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.***

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during 2008 and 2009, many third party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations during that period from their existing private equity and real estate portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, which significantly limited their ability to make new commitments to third party managed investment funds such as those managed by us. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pension funds are significantly underfunded and their funding problems have been, and may in the future be, exacerbated by economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. Although the amount of commitments investors are making to alternative investment funds has increased in recent years, there is no assurance that this will continue or that our ability to raise capital from investors will not be hampered.

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In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles. There can be no assurance that such alternatives will be as profitable for us as the traditional investment fund structure, or as to the impact such a trend could have on the cost of our operations or profitability if we were to implement these alternative investment structures. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients. As some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new investors in order to maintain or increase the size of our investment funds. Our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. There are no assurances that we can find or secure commitments from those new investors. If economic conditions were to deteriorate or if we are unable to find new investors, we might raise less than our desired amount for a given fund. Further, as we seek to expand into other asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so in our funds. For example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-focused funds. We determine the value of the investments of each of our private equity, real estate and credit-focused funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-focused fund is generally determined using several methodologies described in the investment funds' valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, if any, replacement costs and capitalization rates ( cap rates ) analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value. In determining fair values of exploration and production (E&P) investments within the energy

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sector, we consider the following: projected operating cash flows resulting from the utilization of third-party analysis of the reserve quantities, which may from time to time be adjusted for management's view, combined with the forward strip price for the specific commodity in the near-term, Blackstone Energy Partner's long-term view of the commodity price in the outer years, sales of comparable assets, and replacement costs. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as barrel of oil equivalent, or BOE, by a relevant reserve metric observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to other similar methods. Additionally, where applicable, given the structured nature of some of the preferred securities, projected distributable cash flow through maturity or other triggering events will also be considered in support of the investment's carrying value. These valuation methodologies involve a significant degree of management judgment.

In certain cases debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment. These differences might cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

***The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

we may create new funds in the future that reflect a different asset mix and different investment strategies, as well as a varied geographic and industry exposure as compared to our present funds, and any such new funds could have different returns from our existing or previous funds,

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as the global markets rebounded from the financial crisis in recent years, market conditions were largely favorable, which helped to generate positive performance, particularly in our private equity and real estate businesses, although there can be no assurance that such conditions will repeat or that our current or future investment funds will avail themselves of comparable market conditions,

the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments,

the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments,

in recent years, there has been increased competition for private equity investment opportunities resulting from, among other things, the increased amount of capital invested in alternative investment funds,

our investment funds' returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves, our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions, and the circumstances under which our current or future funds may make future investments may differ significantly from those conditions prevailing in the past,

newly established funds may generate lower returns during the period in which they initially deploy their capital, and

the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

The future internal rate of return for any current or future fund may vary considerably from the historical internal rate of return generated by any particular fund, or for our funds as a whole. In addition, future returns will be affected by the applicable risks described elsewhere in this Form 10-K, including risks of the industries and businesses in which a particular fund invests.

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Many of our carry funds' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute as much as 70% or more of a portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, in March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. Such guidance may limit the amount or cost of financing we are able to obtain for our transactions, and as a result, the returns on our investments may suffer. See "Regulatory changes in the United States could adversely affect our business."

In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those businesses' investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.



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Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

give rise to an obligation to make mandatory pre-payments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities,

limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt,

allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it,

limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth, and

limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn during 2008 and 2009.

When our BCP and BREP funds' existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our private equity and real estate funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest and our credit-focused funds, CLOs and CDOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost and the timing and magnitude of such losses may be accelerated or exacerbated in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

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*The asset management business is intensely competitive.*

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds), and we expect that competition will continue to increase. A number of factors serve to increase our competitive risks:

a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do,

some of our funds may not perform as well as competitors' funds or other available investment products,

several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit,

some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities,

some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we can and/or bear less compliance expense than we do,

some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors,

some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make,

there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into our various businesses, including former star portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition,

some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do,

our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment,



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some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages, and

other industry participants will from time to time seek to recruit our investment professionals and other employees away from us. We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

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In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds investment in a particular hedge fund.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Moreover, because the investment strategy of many of our funds, particularly our private equity funds, often entails our having representation on our funds' public portfolio company boards, our funds may be restricted in their ability to effect such sales during certain time periods. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer potentially for a considerable period of time sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

***We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized

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investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as consortium transactions due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in *Our investment funds make investments in companies that we do not control.*

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

### ***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

### ***Our investment funds make investments in companies that we do not control.***

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity and real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in

We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments ) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

### ***We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.***

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds' portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another,

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less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity,

the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation,

changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments,

a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance,

heightened exposure to corruption risk in non-U.S. markets,

political hostility to investments by foreign or private equity investors,

reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms,

higher rates of inflation,

higher transaction costs,

difficulty in enforcing contractual obligations,

fewer investor protections and less publicly available information in respect of companies in non-U.S. markets,

certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments, and

the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

***We may not have sufficient cash to pay back clawback obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds, real estate debt funds and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in any carry fund's life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds

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and certain multi-asset class investment funds) the fund's net profits over the life of the fund, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled on an after tax basis. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. To the extent we are required to fulfill a clawback obligation, however, our general partner may determine to decrease the amount of our distributions to common unitholders. The clawback obligation operates with respect to a given carry fund's own net investment performance only and performance of other funds are not netted for determining this contingent obligation.

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Adverse economic conditions may increase the likelihood that one or more of our carry funds may be subject to clawback obligations upon the end of their respective lives (or earlier with respect to certain of our real estate funds, real estate debt funds and certain multi-asset class and/or opportunistic investment funds). To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50-67%) beyond what we actually received in carried interest, although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

***Investments by our investment funds will in most cases rank junior to investments made by others.***

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.***

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn, subject to the applicable fund's specific redemption provisions. In a declining market, many hedge funds, including some of our hedge funds, may experience declines in value, and the pace of redemptions and consequent reduction in our assets under management could accelerate. Such declines in value may be both provoked and exacerbated by margin calls and forced selling of assets. To the extent appropriate and permissible under a fund's constituent documents, we may limit or suspend redemptions during a redemption period, which may have a reputational impact on us. See Hedge fund investments are subject to numerous additional risks. The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days prior written notice. In addition, the boards of directors of the investment management companies we manage, or the adviser in respect of the registered business development company we sub-advise, could terminate our advisory engagement of those

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companies, on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a clawback obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds provide that in the event certain key persons in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a specified percentage (including, in certain cases, a simple majority) vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition, the governing agreements of some of our investment funds provide that investors have the right to terminate, for any reason, the investment period by a vote of 75% of the investors in such fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an assignment, without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our 1940 Act registered funds, each investment fund's investment management agreement must be approved annually by the independent members of such investment fund's board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.

***Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.***

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. A default by an investor may also limit a fund's availability to incur borrowings and avail itself of what would otherwise have been available credit. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. Third-party investors in private equity, real estate and venture capital funds typically use distributions from prior investments to meet future capital calls. In cases where valuations of investors' existing investments fall and the pace of distributions slows, investors may be unable to make new commitments to third-party managed investment funds such as those advised by us. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

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*Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.*

Because of our various lines of asset management businesses and our capital markets services business, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

*Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.*

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, we may allocate an investment opportunity that is appropriate for two or more investment funds in a manner that excludes one or more funds or results in a disproportionate allocation based on factors or criteria that we determine, such as sourcing of the transaction, the relative amounts of capital available for investment in each fund, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to the respective funds and other considerations deemed relevant by us. In addition, the challenge of allocating investment opportunities to certain funds may be exacerbated as we expand our business to include more public vehicles. We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. We may also cause different funds that we manage to purchase different classes of securities in the same portfolio company. For example, one of our CLO funds could acquire a debt security issued by the same company in which one of our private equity funds owns common equity securities. A direct conflict of interest could arise between the debt holders and the equity holders if such a company were to develop insolvency concerns, and that conflict would have to be carefully managed by us. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. Lastly, in certain, infrequent instances we may purchase an investment alongside one of our investment funds or sell an investment to one of our investment funds and conflicts may arise in respect of the allocation, pricing and timing of such investments and the ultimate disposition of such investments. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.

*Risk management activities may adversely affect the return on our funds' investments.*

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.



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While such hedging arrangements may reduce certain risks, such arrangements themselves may entail certain other risks. These arrangements may require the posting of cash collateral at a time when a fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, that reduce the returns generated by a fund. Finally, the CFTC has made several public statements that it may soon issue a proposal for certain foreign exchange products to be subject to mandatory clearing, which could increase the cost of entering into currency hedges.

***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets, including the deterioration of real estate fundamentals. These risks include, but are not limited to, those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, operating income, the financial resources of tenants, changes in building, environmental, zoning and other laws, casualty or condemnation losses, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, acts of god, terrorist attacks, war and other factors that are beyond our control. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. In addition, our real estate funds may also make investments in residential real estate projects and/or otherwise participate in financing opportunities relating to residential real estate assets or portfolios thereof from time to time, which may be more highly susceptible to adverse changes in prevailing economic and/or market conditions and present additional risks relative to the ownership and operation of commercial real estate assets.

***Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.***

Certain of our investment funds, especially our credit-focused funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high-risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect

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our reputation. In addition, in a recent 2013 federal Circuit Court case, the Court determined that a private equity fund could be liable for ERISA Title IV pension obligations (including withdrawal liability incurred with respect to union multiemployer plans) of its portfolio companies, if such fund is a trade or business and the fund's ownership interest in the portfolio company is significant enough to bring the portfolio company within its controlled group. While a number of cases have held that managing investments is not a trade or business for tax purposes, the Circuit Court in this case concluded the a private equity fund could be a trade or business for ERISA purposes based on certain factors, including the fund's level of involvement in the management of its portfolio companies and the nature of its management fee arrangements. The Circuit Court case did not conclude whether the fund in question and its portfolio companies were part of the same controlled group.

***Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.***

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, approximately 70% of the investments of our real estate funds (based on fair values as of December 31, 2015) are in office building, hotel and shopping center assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

***Investments by our funds in the power and energy industries involve various operational, construction, regulatory and market risks that could adversely affect our results of operations, liquidity and financial condition.***

The development, operation and maintenance of power and energy generation facilities involves many risks, including, as applicable, labor issues, start-up risks, breakdown or failure of facilities, lack of sufficient capital to maintain the facilities, the dependence on a specific fuel source, volatility in the price of fuel sources, or the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output, efficiency or reliability, the occurrence of any of which could result in lost revenues and/or increased expenses. In turn, such developments could impair a portfolio company's ability to repay its debt or conduct its operations. We may also choose or be required to decommission a power generation facility or other asset. The decommissioning process could be protracted and result in the incurrence of significant financial and/or regulatory obligations or other uncertainties.

Our power and energy sector portfolio companies may also face construction risks typical for power generation and related infrastructure businesses. Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of construction activities once undertaken. Delays in the completion of any power project may result in lost revenues or increased expenses, including higher operation and maintenance costs related to such portfolio company.

The power and energy sectors are the subject of substantial and complex laws, rules and regulation by various federal and state regulatory agencies. Failure to comply with applicable laws, rules and regulations could result in the prevention of operation of certain facilities or the prevention of the sale of such a facility to a third party, as well as the loss of certain rate authority, refund liability, penalties and other remedies, all of which could result in additional costs to a portfolio company and adversely affect the investment results.

Our businesses that invest in the energy industry also focus on investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including:

the use of new technologies, including hydraulic fracturing,

reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and

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encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks.

In addition, the performance of the investments made by our credit and equity funds in the energy and natural resources markets are also subject to a high degree of market risk, as such investments are likely to be, directly or indirectly substantially dependent upon prevailing prices of oil, natural gas and other commodities. Oil and natural gas prices are subject to wide fluctuation in response to factors beyond the control of us or our portfolio companies, including relatively minor changes in the supply and demand for oil and natural gas, market uncertainty, the level of consumer product demand, weather conditions, governmental regulation, the price and availability of alternative fuels, political and economic conditions in oil producing countries, foreign supply of such commodities and overall domestic and foreign economic conditions. These factors make it difficult to predict future commodity price movements with any certainty.

***The financial projections of our portfolio companies could prove inaccurate.***

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

***Contingent liabilities could harm fund performance.***

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

***Our funds may be forced to dispose of investments at a disadvantageous time.***

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have only a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

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***Hedge fund investments are subject to numerous additional risks.***

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-focused and real estate debt hedge funds, are subject to numerous additional risks, including the following:

Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.

Generally, there are few limitations on the execution of the hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.

Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This systemic risk may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.

The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.

Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many



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cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.

Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing daily price fluctuation limits or daily limits, the existence of which may reduce liquidity or effectively curtail trading in particular markets.

*We are subject to risks in using prime brokers, custodians, counterparties, administrators and other agents.*

Many of our funds depend on the services of prime brokers, custodians, counterparties, administrators and other agents to carry out certain securities and derivatives transactions. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight, although the Dodd-Frank Act provides for new regulation of the derivatives market. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur suddenly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack contractual recourse or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which is when defaults are most likely to occur.

In addition, our risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not have taken sufficient action to reduce our risks effectively. Default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

Although we have risk-management models and processes to ensure that we are not exposed to a single counterparty for significant periods of time, given the large number and size of our funds, we often have large positions with a single counterparty. For example, most of our funds have credit lines. If the lender under one or more of those credit lines were to become insolvent, we may have difficulty replacing the credit line and one or more of our funds may face liquidity problems.

In the event of a counterparty default, particularly a default by a major investment bank or a default by a counterparty to a significant number of our contracts, one or more of our funds may have outstanding trades that they cannot settle or are delayed in settling. As a result, these funds could incur material losses and the resulting market impact of a major counterparty default could harm our businesses, results of operation and financial condition.

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In the event of the insolvency of a prime broker, custodian, counterparty or any other party that is holding assets of our funds as collateral, our funds might not be able to recover equivalent assets in full as they will rank among the prime broker's, custodian's or counterparty's unsecured creditors in relation to the assets held as collateral. In addition, our funds' cash held with a prime broker, custodian or counterparty generally will not be segregated from the prime broker's, custodian's or counterparty's own cash, and our funds may therefore rank as unsecured creditors in relation thereto. If our derivatives transactions are cleared through a derivatives clearing organization, the CFTC has issued final rules regulating the segregation and protection of collateral posted by customers of cleared and uncleared swaps. The CFTC is also working to provide new guidance regarding prime broker arrangements and intermediation generally with regard to trading on swap execution facilities.

The counterparty risks that we face have increased in complexity and magnitude as a result of disruption in the financial markets in recent years. For example, the consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In addition, counterparties have generally reacted to recent market volatility by tightening their underwriting standards and increasing their margin requirements for all categories of financing, which has the result of decreasing the overall amount of leverage available and increasing the costs of borrowing.

### ***Underwriting activities by our capital markets services business expose us to risks.***

We act as an underwriter in securities offerings through our capital markets services business. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

### **Risks Related to Our Organizational Structure**

#### ***Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business.***

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding limited liability matters. As of December 31, 2015, Blackstone Partners L.L.C., an entity wholly owned by our personnel and others who are limited partners, had 49.5% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to remove or block any removal of our general partner and thus control The Blackstone Group L.P.

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***Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.***

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., including any attempt to remove our general partner.

Our common unitholders' voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also does not restrict our general partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, the common unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then-outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under "Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business," our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.***

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (a) that a majority of the board of directors of our general partner consist of independent directors, (b) that we have a nominating/corporate governance committee that is composed entirely of independent directors (c) that we have a compensation committee that is composed entirely of independent directors, and (d) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.***

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders,



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our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow,

because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments,

other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us,

our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law,

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement,

our general partner determines how much debt we incur and that decision may adversely affect our credit ratings,

our general partner determines which costs incurred by it and its affiliates are reimbursable by us,

our general partner controls the enforcement of obligations owed to us by it and its affiliates, and

our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence and Part III. Item 10. Directors, Executive Officers and Corporate Governance Partnership Management and Governance Conflicts Committee.

***Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.***

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a



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decision in its sole discretion or discretion or that it deems necessary or appropriate or necessary or advisable, then our general partner is entitled to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See Part III. Item 10. Directors, Executive Officers and Corporate Governance Partnership Management and Governance Conflicts Committee.

***The control of our general partner may be transferred to a third party without common unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone's track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

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*We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by cash flow from operations and available liquidity, our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.*

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and our funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and may change at any time, including, without limitation, to eliminate such distributions entirely.

The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, including the timing and extent of our realizations, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

*The amortization of finite-lived intangible assets and non-cash equity-based compensation results in substantial expenses that may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.*

As part of the reorganization related to our IPO we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. As of December 31, 2015, we have \$345.5 million of finite-lived intangible assets (in addition to \$1.7 billion of goodwill), net of accumulated amortization. These finite-lived intangible assets are from the IPO and other business transactions. We are amortizing these finite-lived intangibles over their estimated useful lives, which range from three to twenty years, using the straight-line method, with a weighted-average remaining amortization period of 6.4 years as of December 31, 2015. In addition, as part of the reorganization at the time of our IPO, Blackstone personnel received an aggregate of 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units

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(which was \$31) is being charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods. These expenses may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.

***We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.***

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings Partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of The Blackstone Group L.P.'s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the corporate taxpayers, would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

One of the corporate taxpayers has entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayer to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and others may continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings Partnership Units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings Partnership Units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone Holdings Partnership Units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty's continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable

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agreement could be in excess of the corporate taxpayers' actual cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If The Blackstone Group L.P. were deemed an investment company under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

An entity will generally be deemed to be an investment company for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and capital markets services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and capital markets firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an "orthodox" investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings Partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings Partnerships and are vested with all management and control over the Blackstone Holdings Partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P.'s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

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*Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.*

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. We had a total of 565,216,681 voting common units outstanding as of February 19, 2016. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings owned an aggregate of 543,983,293 Blackstone Holdings Partnership Units outstanding as of February 19, 2016. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings Partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be restricted securities, as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that requires us to register these common units under the Securities Act and we have filed registration statements that cover the delivery of common units issued upon exchange of Blackstone Holdings Partnership Units. See Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence Transactions with Related Persons Registration Rights Agreement. While the partnership agreements of the Blackstone Holdings Partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People's Republic of China, pursuant to which we sold to it non-voting common units. Beijing Wonderful Investments currently owns 59,083,468 non-voting common units. We have agreed to provide Beijing Wonderful Investments with registration rights to effect certain sales.

As of February 19, 2016, we had granted 17,017,802 outstanding deferred restricted common units and 43,166,834 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under The Blackstone Group L.P. 2007 Equity Incentive Plan (2007 Equity Incentive Plan). The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 166,340,808 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 19, 2016. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

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In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

*The market price of our common units may be volatile, which could cause the value of your investment to decline.*

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

### **Risks Related to United States Taxation**

*Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.*

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the *Qualifying Income Exception*), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under *The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units,* the U.S. Congress has considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to



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address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders' beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.***

The value of our common units depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. Moreover, the anticipated after-tax benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units. For example, because of widespread state budget deficits, several states have evaluated ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

***Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the

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1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder's tax basis in the unit. That treatment contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder's tax basis in the units), but will instead report the holder's allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or CFC, and a Passive Foreign Investment Company, or PFIC, may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

***The Blackstone Group L.P.'s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such

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common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder's tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

*If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings Partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.*

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. If no such election is made, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee's acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

*Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.*

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected income with respect to non-U.S. holders, or ECI. Moreover, dividends paid by an investment that we make in a real estate investment trust, or REIT, that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to certain non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate. A portion of any gain recognized by a non-U.S. holder on the sale or exchange of common units could also be treated as ECI.

*Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.*

In light of our investment activities, we will be treated as deriving income that constitutes unrelated business taxable income, or UBTI. Consequently, a holder of common units that is a tax-exempt organization may be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

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***We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders' tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

***Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each common unitholder to file all U.S. federal, state and local tax returns that may be required of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

***While we anticipate that we will be able to provide to each unitholder specific tax information within 90 days after the close of each calendar year, we cannot guarantee this will be the case. To the extent we are unable to furnish the information within 90 days, holders of common units who are U.S. taxpayers may need to file a request for an extension of the due date of their income return. In addition, it is possible that common unitholders may be required to file amended income tax returns.***

It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, it is possible that a common unitholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, is the responsibility of each common unitholder.

***Certain U.S. holders of common units are subject to additional tax on net investment income.***

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on net investment income (or undistributed net investment income, in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person's adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. Net income and gain attributable to an investment in the Partnership will be included in a U.S. holder's net investment income subject to this Medicare tax.

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***We may be liable for adjustments to our tax returns as a result of recently enacted legislation.***

Legislation was recently enacted that significantly changes the rules for U.S. federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, and, unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. Under the elective alternative procedure, a partnership would issue information returns to persons who were partners in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and the partnership would not be liable for the adjustments. If a partnership elects the alternative procedure for a given adjustment, the amount of taxes for which its partners would be liable would be increased by any applicable penalties and a special interest charge. There can be no assurance that we will be eligible to make such an election or that we will, in fact, make such an election for any given adjustment. If we do not or are not able to make such an election, then (a) our then-current common unitholders, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had we elected the alternative procedure, and (b) a given common unitholder may indirectly bear taxes attributable to income allocable to other common unitholders or former common unitholders, including taxes (as well as interest and penalties) with respect to periods prior to such holder's ownership of common units. Amounts available for distribution to our common unitholders may be reduced as a result of our obligation to pay any taxes associated with an adjustment. Many issues and the overall effect of this new legislation on us are uncertain, and common unitholders should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. As of December 31, 2015, we lease our offices in Beijing, Dubai, Dublin, Düsseldorf, Hong Kong, Houston, London, Los Angeles, Madrid, Montecito, Mexico City, Mumbai, Paris, Sao Paulo, Seoul, Shanghai, Singapore, Sydney, Tokyo and Toronto. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

**ITEM 3. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Item 1A. Risk Factors above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone's financial results in any particular period.

The SEC has publicly indicated that it is specifically focused on private equity practices regarding fees and other conflicts of interest, including, among other things, the widespread industry practice of receiving fees from portfolio companies in connection with the termination of monitoring agreements upon the initial public offering or disposition of such companies. The SEC had reviewed our historical monitoring fee practices in 2011-2012 in their regular exam process. In June 2014, we voluntarily modified our monitoring fee practices in ways that are beneficial to our private equity investors, including eliminating any such payments beyond the year of sale for full dispositions and limiting payments following IPOs. This followed the expansion in 2012 of the disclosure that was already being made to private equity investors regarding such fees. As previously disclosed, in October 2014 the SEC informally requested additional information about our historical monitoring fee termination practices. The SEC

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also asked for additional information about certain pre-2011 practices relating to the application of disparate vendor discounts to Blackstone and to our funds that were changed in 2011 and had also been previously reviewed by the SEC in 2012. As previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, on October 7, 2015, without admitting or denying any wrongdoing, three of Blackstone's private equity fund advisers (the Fund Advisers) consented to the entry of an order settling these matters in connection with funds formed many years ago. According to the SEC order, with respect to these legacy funds, the Fund Advisers did not provide sufficient pre-commitment disclosure regarding the possibility of accelerating otherwise authorized fees upon termination of monitoring fee agreements with their portfolio companies. The SEC order recognized, however, that such fees were disclosed in distribution notices, quarterly reports and in the case of initial public offerings of portfolio companies, in Form S-1 filings, and were subject to an explicit Limited Partner Advisory Committee objection right that was never exercised. The order also found that the Fund Advisers did not adequately disclose that certain legal fee discounts they received, prior to 2011, were greater than discounts received by the funds. The SEC order recognized, however, that in early 2011, the Fund Advisers voluntarily changed this policy. The Fund Advisers agreed as part of the settlement to pay disgorgement of \$26,225,203 (plus prejudgment interest of \$2,686,553) to limited partners of those funds and a civil monetary penalty of \$10,000,000 to the SEC.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common units representing limited partner interests are traded on the New York Stock Exchange ( NYSE ) under the symbol BX. Our common units began trading on the NYSE on June 22, 2007.

The number of holders of record of our common units as of February 19, 2016 was 98. This does not include the number of unitholders that hold common units in street name through banks or broker-dealers.

The following table sets forth the high and low intra-day sales prices per common unit, for the periods indicated, as reported by the NYSE and the per unit common unitholder distributions for the indicated fiscal quarters:

	2015			2014		
	High	Low	Common Unitholder Distributions (a)	High	Low	Common Unitholder Distributions (a)
First Quarter	\$ 39.62	\$ 32.36	\$ 0.89	\$ 35.39	\$ 29.51	\$ 0.35
Second Quarter	\$ 44.43	\$ 38.31	\$ 0.74	\$ 34.48	\$ 27.56	\$ 0.55
Third Quarter	\$ 42.60	\$ 28.56	\$ 0.49	\$ 36.08	\$ 30.71	\$ 0.44
Fourth Quarter	\$ 35.24	\$ 26.82	\$ 0.61	\$ 34.70	\$ 26.56	\$ 0.78

(a) Per common unit, presented on a fiscal quarter basis.

**Cash Distribution Policy**

With respect to fiscal year 2015, we have paid to common unitholders distributions of \$0.89, \$0.74, \$0.49 and \$0.61 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.73 per common unit. We have also paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.90, \$0.74, \$0.49 and \$0.65 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.78 per Blackstone Holdings Partnership Unit.

With respect to fiscal year 2014, we paid to common unitholders distributions of \$0.35, \$0.55, \$0.44 and \$0.78 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.12 per common unit. We also paid \$0.38, \$0.60, \$0.56 and \$0.92 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.46 per Blackstone Holdings Partnership Unit.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount distributed could also be adjusted upward in any one quarter.

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All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to eliminate such distributions entirely.

Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly owned subsidiaries, we fund distributions by The Blackstone Group L.P., if any, in three steps:

First, we cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph),

Second, we cause The Blackstone Group L.P.'s wholly owned subsidiaries to distribute to The Blackstone Group L.P. their share of such distributions, net of the taxes and amounts payable under the tax receivable agreement by such wholly owned subsidiaries, and

Third, The Blackstone Group L.P. distributes its net share of such distributions to our common unitholders on a pro rata basis. Because the wholly owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 17. Related Party Transactions in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

In addition, the partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as tax distributions, to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Blackstone Holdings Partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.



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**Unit Repurchases in the Fourth Quarter of 2015**

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended December 31, 2015, no units were repurchased. As of December 31, 2015, the amount remaining under this program available for repurchases was \$335.8 million. See Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 15. Net Income Per Common Unit and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Needs for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Blackstone Holdings Partnership Units.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The consolidated statements of financial condition and income data as of and for the five years ended December 31, 2015 have been derived from our consolidated financial statements. The audited Consolidated Statements of Financial Condition as of December 31, 2015 and 2014 and the Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013 are included elsewhere in this Form 10-K. The audited Consolidated Statements of Financial Condition as of December 31, 2013, 2012 and 2011 and the Consolidated Statements of Operations for the years ended December 31, 2012 and 2011 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this Form 10-K:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
<b>Revenues</b>					
Management and Advisory Fees, Net	\$ 2,542,505	\$ 2,497,252	\$ 2,193,985	\$ 2,030,693	\$ 1,811,750
Performance Fees	1,796,666	4,374,262	3,544,057	1,593,052	1,182,660
Investment Income	204,642	534,000	800,308	350,194	213,323
Interest and Dividend Revenue and Other	102,739	79,214	74,818	45,502	44,843
<b>Total Revenues</b>	4,646,552	7,484,728	6,613,168	4,019,441	3,252,576
<b>Expenses</b>					
Compensation and Benefits	2,290,751	3,154,371	3,257,667	2,605,244	2,738,425
General, Administrative and Other	576,103	549,463	474,442	548,738	566,313
Interest Expense	144,522	121,524	107,973	72,870	57,824
Fund Expenses	79,499	30,498	26,658	33,829	25,507
<b>Total Expenses</b>	3,090,875	3,855,856	3,866,740	3,260,681	3,388,069
<b>Other Income</b>					
Reversal of Tax Receivable Agreement Liability	82,707		20,469		197,816
Net Gains from Fund Investment Activities	176,364	357,854	381,664	256,145	14,935
<b>Total Other Income</b>	259,071	357,854	402,133	256,145	212,751
<b>Income Before Provision for Taxes</b>	1,814,748	3,986,726	3,148,561	1,014,905	77,258
<b>Provision for Taxes</b>	190,398	291,173	255,642	185,023	345,711
<b>Net Income (Loss)</b>	1,624,350	3,695,553	2,892,919	829,882	(268,453)
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	11,145	74,794	183,315	103,598	(24,869)
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	219,900	335,070	198,557	99,959	7,953
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	683,516	1,701,100	1,339,845	407,727	(83,234)
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	\$ 709,789	\$ 1,584,589	\$ 1,171,202	\$ 218,598	\$ (168,303)

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Net Income (Loss) Per Common Unit, Basic and Diluted</b>					
Common Units, Basic	\$ 1.12	\$ 2.60	\$ 2.00	\$ 0.41	\$ (0.35)
Common Units, Diluted	\$ 1.04	\$ 2.58	\$ 1.98	\$ 0.41	\$ (0.35)
<b>Distributions Declared Per Common Unit (a)</b>	\$ 2.90	\$ 1.92	\$ 1.18	\$ 0.52	\$ 0.62

- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year. For fiscal year 2015, we declared a final fourth quarter distribution per common unit of \$0.61, which was paid in February 2016.

	2015	2014	December 31, 2013	2012	2011
	(Dollars in Thousands)				
<b>Statement of Financial Condition Data</b>					
Total Assets (a)	\$ 22,526,080	\$ 31,497,097	\$ 29,668,959	\$ 28,921,060	\$ 21,903,378
Senior Notes	\$ 2,797,060	\$ 2,136,706	\$ 1,654,659	\$ 1,660,361	\$ 1,045,954
Total Liabilities (a)	\$ 10,295,623	\$ 14,163,550	\$ 15,291,288	\$ 17,706,113	\$ 12,651,092
Redeemable Non-Controlling Interests in Consolidated Entities	\$ 183,459	\$ 2,441,854	\$ 1,950,442	\$ 1,556,185	\$ 1,091,833
Total Partners Capital	\$ 12,046,998	\$ 14,891,693	\$ 12,427,229	\$ 9,658,762	\$ 8,160,453

- (a) The decrease in total assets, total liabilities and redeemable non-controlling interests in consolidated entities from December 31, 2014 to December 31, 2015 was principally due to the adoption as of January 1, 2015 of new accounting consolidation guidance which resulted in the deconsolidation of certain Blackstone Funds. For more information, see Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 2. Summary of Significant Accounting Policies Recent Accounting Developments. The increase in total assets and total liabilities from December 31, 2011 to December 31, 2012 was principally due to the acquisition of Harbourmaster, a leading European leveraged loan manager and adviser and the resultant GAAP required consolidation of certain managed CLO vehicles.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s consolidated financial statements and the related notes included within this Annual Report on Form 10-K.*

**Our Business**

Blackstone is one of the largest independent managers of private capital in the world. Our business is organized into four segments:

**Private Equity.** We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds, since we established this business in 1987. We refer to these managed corporate private equity funds collectively as our Blackstone Capital Partners ( BCP ) funds. Our Private Equity segment also includes Blackstone Tactical Opportunities ( Tactical Opportunities ), our opportunistic investment platform that invests globally across asset classes, industries and geographies, Strategic Partners Fund Solutions ( Strategic Partners ), a secondary private fund of funds business, Blackstone Total Alternatives Solution ( BTAS ), a new multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone's key illiquid investment strategies through a single commitment, and our capital markets services business ( BXCM ). Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in mature companies and greenfield development projects in energy and power). Tactical Opportunities seeks to capitalize on time-sensitive, complex and dislocated market situations across asset classes, industries and geographies in a broad range of investments, including private and public securities, and instruments, where the underlying exposure may be to equity, debt, and/or real assets. Strategic Partners focuses on delivering access to a range of opportunities, leveraging its proprietary database to acquire single fund interests or complex portfolios in an efficient and timely manner.

**Real Estate.** Since our start in 1991, we have become a world leader in real estate investing. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment vehicles, a NYSE publicly traded real estate investment trust ( BXMT ) and several core+ real estate funds. We refer to our opportunistic real estate funds as our Blackstone Real Estate Partners ( BREP ) funds, our real estate debt investment vehicles as our Blackstone Real Estate Debt Strategies ( BREDS ) funds and our core+ real estate funds as our Blackstone Property Partners ( BPP ) funds.

Our BREP funds are geographically diversified and target a broad range of opportunistic real estate and real estate related investments that are generally undermanaged assets with higher potential for equity appreciation. BREP has made significant investments in lodging, office buildings, shopping centers, residential and a variety of real estate operating companies.

Our BREDS vehicles target real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

Our BPP funds are geographically diversified and target substantially stabilized assets generating relatively stable cash flow with a focus on office, multifamily, industrial and retail assets in gateway markets.

**Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ( BAAM ). BAAM is the world's largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solutions segment also includes investment

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platforms that seed new hedge fund talent, purchase ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade long and short public equities.

**Credit.** Our Credit segment consists principally of GSO Capital Partners LP ( GSO ), a global leader in managing credit-focused products within private and public debt market strategies. GSO's products include senior credit-focused funds, mezzanine funds, distressed debt funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation ( CLO ) vehicles.

Please see Significant Transactions below for information regarding the previously reported Financial Advisory segment.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from capital markets services. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as Performance Fees ). The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy and other market conditions.

## **Business Environment**

Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Europe, Asia and, to a lesser extent, elsewhere in the world.

Global equity indices were marked by high volatility during 2015, with the CBOE volatility index reaching its highest levels since 2011. Equity markets began 2015 on strong footing, but suffered declines in the second half of the year, as concerns about slowing growth in China and its implications for global economic growth, falling oil and commodity prices and central bank monetary policy began to weigh heavily on market sentiment. The trends had varying impacts on full-year equity market performance: the S&P 500 ended the year down 0.7%, the MSCI World Index was down 2.7%, the FTSE 100 was down 4.9%, and the Hang Seng down 7.2%; other indices had positive performance, including the NASDAQ up 5.7%, Euro Stoxx 50 up 3.8%, the Nikkei 225 up 9.1%.

Signs of slowing Chinese growth continued to emerge during 2015 and slowing momentum in the economy fed into Chinese investor sentiment. At an official growth rate of 6.9%, China registered its slowest annual GDP growth rate in nearly 25 years. After the Shanghai composite gained more than 50% to reach its all-time high in the first half of the year, it fell more than 30% in the second half of 2015, and ended the year up 9%. In an effort to boost the economy, the People's Bank of China enacted a number of stimulus measures during 2015, and seemed likely to continue these efforts in 2016. China also allowed the yuan to depreciate against the U.S. Dollar and renewed the possibility it would move towards pegging the yuan against a basket of global currencies to give it greater flexibility to manage its monetary policy.

Oil prices continued their downward trend in 2015, falling more than 30% and ending the year at \$37 a barrel. Resilient production in the U.S. and globally, ample existing supply, and reduced demand from key emerging economies, including China and India, were all contributing factors. U.S. retail gas prices fell to \$2.00 a gallon, a six-year low, but the impact to overall consumer spending remained unclear. Large energy producers reported sharp declines in earnings and spending cutbacks feeding into longer-term concerns for U.S. employment and job growth.

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In addition to oil and gas, prices for other commodities also fell in 2015. The impact of falling commodity prices was felt particularly hard in many commodity-driven emerging market countries in 2015. A number of Latin American currencies depreciated by double-digit percentages against the U.S. dollar, with the Argentine peso and Brazilian real each losing around half their value. Many Latin American equity indices also exhibited sharp declines, including the Brazilian Bovespa, which declined by more than 13% in 2015.

Against the backdrop of growing global investor pessimism and energy sector weakness, the U.S. economy continued to show signs of strength overall in 2015. The U.S. continued to grow real GDP at over 2% and ended the year with 5.0% unemployment, its lowest level since early 2008. Controlling for inflation, consumer spending held steady. In December 2015, the Federal Reserve raised interest rates from a target range of 0 to 0.25% to a range of 0.25% to 0.50% and stated intentions to raise rates at a gradual pace going forward while continuing to monitor economic conditions in the U.S. and globally. The rate increase ended a historic second year near-zero interest rate environment.

Concerns about global growth prospects, liquidity, energy exposure and uncertainty on interest rates also weighed on credit markets. High yield spreads widened materially to nearly 750 basis points, an increase of almost 200 basis points, and high-yield issuance fell significantly in 2015. Global equity capital market activity for both IPOs and follow-ons fell significantly year-over-year, driven by declining U.S. and European volumes in the midst of heightened market volatility.

## **Significant Transactions**

On October 1, 2015, Blackstone completed the previously-announced spin-off of the operations that have historically constituted Blackstone's Financial Advisory segment, other than Blackstone's capital markets services business. Blackstone's capital markets services business was retained and was not part of the spin-off. The financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses were spun-off from Blackstone and combined with PJT Capital LP, an independent financial advisory firm founded by Paul J. Taubman, to form an independent, publicly traded company called PJT Partners Inc.

Concurrently with the spin-off, the results attributable to the capital markets services business, BXCM, from its inception in the three months ended March 31, 2013 through the period ended September 30, 2015 were reclassified to the Private Equity segment. For periods after September 30, 2015, the recast Financial Advisory segment has no results of operations. The recast historical Financial Advisory segment includes financial and strategic advisory services, restructuring and reorganization services and fund placement services for alternative investment funds.

On October 1, 2015, Blackstone formed a new holding partnership, Blackstone Holdings AI L.P., which will hold certain operating entities and operate in a manner similar to the existing Blackstone Holdings Partnerships.

On May 19, 2015, Blackstone issued \$300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025.

On April 27, 2015, Blackstone issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

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### **Organizational Structure**

The simplified diagram below depicts our organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.

(See [Significant Transactions](#) above for additional information on our organizational structure.)

### **Key Financial Measures and Indicators**

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

#### ***Revenues***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to [Part I. Item 1. Business Incentive Arrangements / Fee Structure](#) and [Critical Accounting Policies Revenue Recognition](#) for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ( management fee reductions ) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* Performance Fees earned on the performance of Blackstone's hedge fund structures ( Incentive Fees ) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds ( Carry Funds ), performance fees ( Carried Interest ) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are



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met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

***Expenses***

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

*Other Operating Expenses* Other Operating Expenses represents general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses* The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third party expenses.

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***Non-Controlling Interests in Consolidated Entities***

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

***Redeemable Non-Controlling Interests in Consolidated Entities***

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time, or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

***Income Taxes***

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when

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it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) a determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Some legislative proposals have provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

The Obama administration has made similar proposals that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposals would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2015 and prior years.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, New York has considered legislation, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules,

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regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

Other proposals by members of Congress have contemplated the migration of the United States from a worldwide system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. Such proposals include revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us. A variation of this proposal completes a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. Such proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Speaker of the House Paul Ryan has also identified comprehensive tax reform as a priority for the next Congress. Furthermore, recent legislation has proposed audit procedure adjustments that could affect large partnerships like us. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

***Economic Income***

Blackstone uses Economic Income ( EI ) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its four segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income ( ENI ) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its

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most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 21. Segment Reporting in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data .)

***Fee Related Earnings***

Blackstone uses Fee Related Earnings ( FRE ), which is derived from EI, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related carry plan costs and (b) income earned from Blackstone's investments in the Blackstone Funds. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) non-interest operating expenses. See Liquidity and Capital Resources Sources of Liquidity below for our discussion of FRE.

Effective January 1, 2015 Blackstone redefined FRE to exclude Interest Income and Dividend Revenue, Interest Expense and Investment Income (Loss) Blackstone Treasury Cash Management Strategies. All previously reported periods have been conformed to the new definition.

***Distributable Earnings***

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings, which is a measure not prepared under GAAP (a non-GAAP measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See Liquidity and Capital Resources Sources of Liquidity below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

As a result of the redefinition of FRE noted above, effective January 1, 2015, Distributable Earnings was redefined to exclude Unrealized Investment Income (Loss) Blackstone Treasury Cash Management Strategies. All previously reported periods have been conformed to the new definition.

***Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization***

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization ( Adjusted EBITDA ), is a supplemental non-GAAP measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See Liquidity and Capital Resources Sources of Liquidity below for our calculation of Adjusted EBITDA.

***Summary Walkdown of GAAP to Non-GAAP Financial Metrics***

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship between the

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measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see [Liquidity and Capital Resources](#) [Sources of Liquidity](#).

***Operating Metrics***

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities

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pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,

- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

*Fee-Earning Assets Under Management.* Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,

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(g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.



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For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation or Incentive Fee.

The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.

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**Financial Highlights**

The following charts highlight certain financial metrics<sup>(a)</sup>:

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- (a) Total Revenues represents the total segment amounts. Net Realized Performance Fees represents total segment Performance Fees for Realized Carried Interest and Realized Incentive Fees less Performance Fee Compensation for Realized Carried Interest and Realized Incentive Fees. See Note 21. Segment Reporting in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing. For the components of Distributable Earnings and Fee Related Earnings, see the reconciliation of Fee Related Earnings, Distributable Earnings and Economic Net Income at Liquidity and Capital Resources Sources of Liquidity below. For Total and Fee-Earning Assets Under Management, see Consolidated Results of Operations Operating Metrics below.

**Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for each of the years in the three year period ended December 31, 2015. For a more detailed discussion of the factors that affected the results of our four business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see Segment Analysis below.

Please see Significant Transactions above for important information regarding the previously reported Financial Advisory segment.

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The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
<b>(Dollars in Thousands)</b>							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$ 2,542,505	\$ 2,497,252	\$ 2,193,985	\$ 45,253	2%	\$ 303,267	14%
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	3,205,290	2,450,082	943,958	755,208	31%	1,506,124	160%
Incentive Fees	193,238	249,005	464,838	(55,767)	-22%	(215,833)	-46%
<b>Unrealized</b>							
Carried Interest	(1,595,174)	1,704,924	2,158,010	(3,300,098)	N/M	(453,086)	-21%
Incentive Fees	(6,688)	(29,749)	(22,749)	23,061	-78%	(7,000)	31%
Total Performance Fees	1,796,666	4,374,262	3,544,057	(2,577,596)	-59%	830,205	23%
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	555,171	523,735	188,644	31,436	6%	335,091	178%
<b>Unrealized</b>							
Unrealized	(350,529)	10,265	611,664	(360,794)	N/M	(601,399)	-98%
Total Investment Income	204,642	534,000	800,308	(329,358)	-62%	(266,308)	-33%
Interest and Dividend Revenue	94,957	69,809	64,511	25,148	36%	5,298	8%
Other	7,782	9,405	10,307	(1,623)	-17%	(902)	-9%
<b>Total Revenues</b>	<b>4,646,552</b>	<b>7,484,728</b>	<b>6,613,168</b>	<b>(2,838,176)</b>	<b>-38%</b>	<b>871,560</b>	<b>13%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	1,726,191	1,868,868	1,844,485	(142,677)	-8%	24,383	1%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	793,801	815,643	257,201	(21,842)	-3%	558,442	217%
Incentive Fees	85,945	110,099	200,915	(24,154)	-22%	(90,816)	-45%
<b>Unrealized</b>							
Carried Interest	(312,696)	379,037	966,717	(691,733)	N/M	(587,680)	-61%
Incentive Fees	(2,490)	(19,276)	(11,651)	16,786	-87%	(7,625)	65%
Total Compensation and Benefits	2,290,751	3,154,371	3,257,667	(863,620)	-27%	(103,296)	-3%
General, Administrative and Other	576,103	549,463	474,442	26,640	5%	75,021	16%
Interest Expense	144,522	121,524	107,973	22,998	19%	13,551	13%
Fund Expenses (a)	79,499	30,498	26,658	49,001	161%	3,840	14%
<b>Total Expenses (a)</b>	<b>3,090,875</b>	<b>3,855,856</b>	<b>3,866,740</b>	<b>(764,981)</b>	<b>-20%</b>	<b>(10,884)</b>	<b>-0%</b>
<b>Other Income</b>							
Reversal of Tax Receivable Agreement Liability	82,707		20,469	82,707	N/M	(20,469)	-100%
Net Gains from Fund Investment Activities	176,364	357,854	381,664	(181,490)	-51%	(23,810)	-6%
<b>Total Other Income</b>	<b>259,071</b>	<b>357,854</b>	<b>402,133</b>	<b>(98,783)</b>	<b>-28%</b>	<b>(44,279)</b>	<b>-11%</b>

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<b>Income Before Provision for Taxes (a)</b>	1,814,748	3,986,726	3,148,561	(2,171,978)	-54%	838,165	27%
<b>Provision for Taxes</b>	190,398	291,173	255,642	(100,775)	-35%	35,531	14%
<b>Net Income (a)</b>	1,624,350	3,695,553	2,892,919	(2,071,203)	-56%	802,634	28%
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	11,145	74,794	183,315	(63,649)	-85%	(108,521)	-59%
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities (a)</b>	219,900	335,070	198,557	(115,170)	-34%	136,513	69%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	683,516	1,701,100	1,339,845	(1,017,584)	-60%	361,255	27%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 709,789	\$ 1,584,589	\$ 1,171,202	\$ (874,800)	-55%	\$ 413,387	35%

(a) The amounts reported for the year ended December 31, 2015 reflect an adjustment from those reported in our earnings release dated January 28, 2016.

N/M Not meaningful.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Total Revenues were \$4.6 billion for the year ended December 31, 2015, a decrease of \$2.8 billion, or 38%, compared to \$7.5 billion for the year ended December 31, 2014. The decrease was primarily attributable to decreases in Performance Fees and Investment Income of \$2.6 billion and \$329.4 million, respectively.

During 2015, the operating environment for equity and credit investing was characterized by concerns related to macroeconomic developments, including the economic outlook in China and the United States, as well as significantly lower global equity prices, widening high-yield credit spreads and declining energy prices. The decline in equity markets and turbulence in the credit markets adversely impacted our Performance Fees and Investment Income relative to 2014. The lower rate of fund appreciation in 2015 relative to 2014 was due, in significant part, to the declines in our publicly-traded portfolio companies in the second half, particularly in lodging and energy. To a lesser extent, the results were impacted by certain unrealized markdowns in energy and credit and currency translation effects on some of our non-U.S. holdings. Growth in global gross domestic product slowed in 2015 and resulted in a slowdown of certain sectors and regions in our global portfolio. If macroeconomic conditions were to deteriorate in the future with a resulting decline in our fund investments, our revenues would likely be negatively impacted. See Segment Analysis below for further information about material trends and uncertainties that may impact our results of operations.

Performance Fees, which are determined on a fund by fund basis, were \$1.8 billion for the year ended December 31, 2015, a decrease of \$2.6 billion compared to \$4.4 billion for the year ended December 31, 2014. The decrease in Performance Fees was primarily due to decreases in our Private Equity, Real Estate, and Credit segments of \$1.2 billion, \$1.0 billion and \$270.4 million, respectively. The decrease in our Private Equity segment was principally due to lower net returns in our corporate private equity portfolio, despite overall solid net performance. Performance Fees in our Real Estate segment decreased due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 20.9% to 9.7%. For the year ended December 31, 2015, the increase in carrying value of assets for Blackstone's contributed Real Estate opportunistic funds was driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6%, offset by public portfolio depreciation of 8.6%, particularly in lodging. Performance Fees decreased in our Credit segment due to our energy investments, overall declines in the credit market, underperformance in certain event-driven assets and technical pressure caused by year end selling.

Investment Income was \$204.6 million for the year ended December 31, 2015, a decrease of \$329.4 million compared to \$534.0 million for the year ended December 31, 2014. The decrease in Investment Income was primarily due to decreases in our Real Estate and Private Equity segments of \$246.5 million and \$105.5 million, respectively. The decrease in our Real Estate segment was primarily due to a year over year net depreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds. The decrease in our Private Equity segment was driven by our BCP V and BCP VI funds which generated strong net returns of 8.1% and 7.9%, respectively, for the year but were slightly lower than the returns generated in the full year 2014 mainly as a result of the lower returns in our public portfolio and certain investment markdowns in energy.

*Expenses*

Expenses were \$3.1 billion for the year ended December 31, 2015, a decrease of \$765.0 million compared to \$3.9 billion for the year ended December 31, 2014. The decrease was primarily attributable to decreases in Performance Fee Compensation and Compensation of \$720.9 million and \$142.7 million, respectively, partially offset by increases of \$49.0 million and \$23.0 million in Fund Expenses and Interest Expense, respectively. Performance Fee Compensation is derived from Performance Fee Revenue. The decrease in Performance Fee Compensation was due to the decrease in Performance Fee Revenue. The decrease in Compensation was primarily due to lower equity-based compensation expense related to awards granted in connection with Blackstone's IPO,

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which were fully vested and expensed as of June 30, 2015 and an overall decrease in headcount driven by the October 1, 2015 spin-off of Blackstone's Financial Advisory business. The decrease was partially offset by an increase in equity-based amortization charges due to the 2014 change in terms of Deferred Compensation Plan awards which require future service and are therefore expensed over the service period. The increase in General, Administrative and Other was primarily due to transactional charges associated with the spin-off, non-recurring costs related to the SEC settlement, occupancy increases and business development costs. Due to the spin-off, partially offsetting these increases was a reduction in expenses directly incurred by the Advisory business. The \$23.0 million increase in interest expense was primarily related to Blackstone's issuance of senior notes in the second quarter of 2015. The increase in Fund Expenses primarily occurred in our Credit segment, where it was attributable to newly launched CLOs and an increase in other expenses.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**Revenues*

Total Revenues were \$7.5 billion for the year ended December 31, 2014, an increase of \$871.6 million, or 13%, compared to \$6.6 billion for the year ended December 31, 2013. The increase was primarily attributable to increases in Performance Fees and Management and Advisory Fees, Net of \$830.2 million and \$303.3 million, respectively. These increases were partially offset by a decrease in Investment Income of \$266.3 million.

Performance Fees, which are determined on a fund by fund basis, were \$4.4 billion for the year ended December 31, 2014, an increase of \$830.2 million compared to \$3.5 billion for the year ended December 31, 2013. The increase in Performance Fees was primarily driven by increases in our Private Equity segment of \$1.2 billion, principally due to performance in our BCP V and BCP VI funds, which generated net returns of 24% and 18%, respectively, with BCP V crossing its preferred return threshold during the period. Performance Fees in our Real Estate segment decreased by \$137.8 million to \$2.0 billion due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 31.3% to 20.9%. For the year ended December 31, 2014, the increase in carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, was driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion). Performance Fees decreased by \$75.8 million in our Hedge Fund Solutions segment due to lower returns. Performance Fees decreased by \$199.9 million in our Credit segment due to challenging market conditions for lower rated credits in our hedge fund strategies business and a lower rate of appreciation in our rescue lending business.

Total Management and Advisory Fees, Net were \$2.5 billion for the year ended December 31, 2014, an increase of \$303.3 million compared to \$2.2 billion for the year ended December 31, 2013. The increase in Management and Advisory Fees, Net was due to increases in our Hedge Fund Solutions segment of \$72.0 million, our Private Equity segment of \$71.9 million, our Real Estate segment of \$63.6 million, and our Credit segment of \$63.8 million. The increase in our Hedge Fund Solutions segment was primarily due to an increase in Fee-Earning Assets Under Management. The increase in our Private Equity segment was primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business as well as the inclusion of the Strategic Partners management fees for the full year. The increase in our Real Estate segment was principally due to fees generated from fundraising within BREP Europe IV, BREP Asia, BPP and invested capital within BREDS, partially offset by the expiration of BREP V and realizations across the portfolio. The increase in our Credit segment was driven by the incremental capital raised for our hedge fund strategies business and business development companies.

Investment Income was \$534.0 million for the year ended December 31, 2014, a decrease of \$266.3 million compared to \$800.3 million for the year ended December 31, 2013. The decrease in Investment Income was primarily due to decreases in our Real Estate and Private Equity segments of \$152.4 million and \$71.0 million, respectively. The decrease in our Real Estate segment was due to a year over year decrease in the net appreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds. The decrease in our Private Equity segment was driven by our BCP V and BEP funds which generated strong net returns of 24% and 12%, respectively, for the year but were slightly lower than the returns generated in the full year 2013.

**Table of Contents***Expenses*

Expenses were \$3.9 billion for the year ended December 31, 2014, a decrease of \$10.9 million compared to \$3.9 billion for the year ended December 31, 2013. The decrease was primarily attributable to a decrease in Performance Fee Compensation of \$127.7 million, partially offset by increases of \$75.0 million, \$24.4 million and \$13.6 million, respectively, in General, Administrative and Other, Compensation and Interest Expense. The decrease in Performance Fee Compensation was due to lower compensation ratios on Performance Fee Revenue and pre-IPO deals. A significant amount of the Performance Fees granted to employees on deals closed prior to the IPO were exchanged for units of Blackstone at the time of the IPO. Therefore, for these pre-IPO deals, Blackstone retains significantly more of the Performance Fees that it earns than it does for deals closed after the IPO. This results in lower Performance Fee Compensation for pre-IPO deals. The \$75.0 million increase in General, Administrative and Other was primarily due to spin-off transaction related charges, professional fees, occupancy increases and business development costs. The \$24.4 million increase in Compensation was due to an overall increase in revenue, on which compensation is based, offset by lower equity-based amortization charges on our transaction-related awards and a reduction of compensation expense due to a change in the terms of Deferred Compensation Plan awards which require future service and are therefore no longer expensed immediately. This resulted in \$102.6 million less Compensation recorded in the fourth quarter of 2014 than would have been recorded under the prior plan. The \$13.6 million increase in Interest Expense was primarily related to Blackstone's issuance of senior notes during the second quarter of 2014.

*Other Income*

Other Income – Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income was eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Consolidated Statements of Operations.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

Other Income was \$259.1 million for the year ended December 31, 2015, a decrease of \$98.8 million compared to \$357.9 million for the year ended December 31, 2014. The decrease was due to a decrease in Net Gains from Fund Investment Activities of \$181.5 million, partially offset by an increase due to a Reversal of Tax Receivable Agreement Liability of \$82.7 million.

Other Income – Net Gains from Fund Investment Activities was \$176.4 million for the year ended December 31, 2015, a decrease of \$181.5 million compared to \$357.9 million for the year ended December 31, 2014. This decrease was primarily comprised of decreases in our Real Estate, Hedge Fund Solutions and Private Equity segments of \$148.3 million, \$73.8 million and \$62.0 million, respectively, partially offset by an increase of \$102.7 million in our Credit segment. The Real Estate decrease was primarily the result of the deconsolidation of certain funds as well as a year over year net decreases in the appreciation of investments across our funds. The decrease in our Hedge Fund Solutions segment was primarily the result of a decrease in investment performance and the deconsolidation of a number of funds. The decrease in our Private Equity segment was primarily due to the lower unrealized gains compared to the same period in 2014. The increase in our Credit segment was primarily due to lower valuations on the liabilities of certain consolidated CLO vehicles, which led to increases in unrealized gains.

For the year ended December 31, 2015, there was a Reversal of Tax Receivable Agreement Liability resulting in an increase of \$82.7 million.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

Other Income was \$357.9 million for the year ended December 31, 2014, a decrease of \$44.3 million compared to \$402.1 million for the year ended December 31, 2013. The decrease was comprised of decreases in Net Gains from Fund Investment Activities of \$23.8 million and Reversal of Tax Receivable Agreement Liability of \$20.5 million.



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Other Income Net Gains from Fund Investment Activities was \$357.9 million for the year ended December 31, 2014, a decrease of \$23.8 million compared to \$381.7 million for the year ended December 31, 2013. This decrease was primarily comprised of decreases in our Hedge Fund Solutions and Private Equity segments of \$99.4 million and \$25.0 million, respectively, partially offset by increases of \$40.7 million and \$39.4 million in our Real Estate and Credit segments, respectively. The decrease in our Hedge Fund Solutions segment was primarily the result of a decrease in investment performance from certain of our consolidated funds. The Real Estate increase was driven by valuation gains on investments across our global Real Estate funds. The increase in our Credit segment was primarily due to lower valuations on the liabilities of certain consolidated CLO vehicles, which led to increases in unrealized gains.

For the year ended December 31, 2014, there was no Reversal of Tax Receivable Agreement Liability resulting in a decrease of \$20.5 million.

*Provision for Taxes*

Blackstone's Provision for Taxes for the years ended December 31, 2015, 2014 and 2013 was \$190.4 million, \$291.2 million and \$255.6 million, respectively. This resulted in an effective tax rate of 10.5%, 7.3% and 8.1%, respectively, based on our Income Before Provision for Taxes of \$1.8 billion, \$4.0 billion and \$3.1 billion, respectively.

The primary factor that contributed to the 3.2% increase in the effective tax rate for the year ended December 31, 2015 compared to the year ended December 31, 2014 is that pre-tax book income includes \$1.2 billion for 2015 and \$3.3 billion for 2014 of pre-tax income that is passed through to common unitholders and non-controlling interest holders and is not subject to tax by the Partnership and its subsidiaries. This resulted in a 6.4% increase to the effective tax rate in 2015 compared to 2014, which is partially offset by a 3.5% decrease to the effective tax rate when comparing 2015 to 2014 resulting from increased interest expense.

The primary factor that contributed to the 0.8% decrease in the effective tax rate for the year ended December 31, 2014 compared to the year ended December 31, 2013 is the amount that book equity-based compensation expense exceeded the tax deductible equity-based compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although this amount did not change significantly in 2014 compared to 2013, pre-tax book income was significantly higher in 2014 than 2013 resulting in a decrease to the effective rate of 0.5% when comparing 2014 to 2013.

All factors except for the reversal of the deferred tax asset are expected to impact the effective tax rate for future years.

Additional information regarding our income taxes can be found in Note 14. Income Taxes in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.

*Non-Controlling Interests in Consolidated Entities*

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income Net Gains from Fund Investment Activities from the Net Income (Loss) Attributable to The Blackstone Group L.P.

Net Income Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains from Fund Investment Activities and the Reversal of Tax Receivable Agreement Liability, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

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For the years ended December 31, 2015, 2014 and 2013, the net income before taxes allocated to Blackstone Holdings was 47.0%, 47.9% and 49.3%, respectively. The decreases of 0.9% and 1.4% were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

The Other Income Reversal of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.

*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the years ended December 31, 2015, 2014 and 2013. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management.

Note: Totals may not add due to rounding.

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	Year Ended December 31,									
	Private Equity	Real Estate	2015 Hedge Fund Solutions	Credit (h)	Total (Dollars in Thousands)	Private Equity	Real Estate	2014 Hedge Fund Solutions	Credit (h)	Total
Fee-Earning Assets Under Management Balance, Beginning of Period	\$ 43,890,167	\$ 52,563,068	\$ 61,417,558	\$ 58,821,006	\$ 216,691,799	\$ 42,600,515	\$ 50,792,803	\$ 52,865,837	\$ 51,722,584	\$ 197,981,739
Inflows, including Commitments (a)	13,882,257	27,698,203	9,667,274	17,310,414	68,558,148	6,757,450	11,536,435	12,021,209	19,845,686	50,160,780
Outflows, including Distributions (b)	(1,395,020)	(4,165,520)	(5,430,094)	(5,711,573)	(16,702,207)	(1,124,355)	(295,067)	(5,362,968)	(3,458,712)	(10,241,102)
Realizations (c)	(5,106,650)	(8,513,771)	(516,619)	(6,318,060)	(20,455,100)	(4,733,564)	(8,719,534)	(312,486)	(7,897,115)	(21,662,699)
Net Inflows Market Appreciation (d)(f)	7,380,587	15,018,912	3,720,561	5,280,781	31,400,841	899,531	2,521,834	6,345,755	8,489,859	18,256,979
Balance, End Period (e)	\$ 51,451,196	\$ 67,345,357	\$ 65,665,439	\$ 61,684,380	\$ 246,146,372	\$ 43,890,167	\$ 52,563,068	\$ 61,417,558	\$ 58,821,006	\$ 216,691,799
Increase Decrease	\$ 7,561,029 17%	\$ 14,782,289 28%	\$ 4,247,881 7%	\$ 2,863,374 5%	\$ 29,454,573 14%	\$ 1,289,652 3%	\$ 1,770,265 3%	\$ 8,551,721 16%	\$ 7,098,422 14%	\$ 18,710,060 9%

	Year Ended December 31, 2013				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total
Fee-Earning Assets Under Management Balance, Beginning of Period	\$ 37,050,167	\$ 41,931,339	\$ 43,478,791	\$ 45,420,143	\$ 167,880,440
Inflows, including Commitments (a)	9,884,340	13,835,625	9,098,002	15,588,769	48,406,736
Outflows, including Distributions (b)	(392,882)	(1,329,763)	(3,626,636)	(1,793,738)	(7,143,019)
Realizations (c)	(4,025,167)	(3,649,494)	(348,126)	(9,475,232)	(17,498,019)
Net Inflows Market Appreciation (d)(f)	5,466,291	8,856,368	5,123,240	4,319,799	23,765,698
	84,057	5,096	4,263,806	1,982,642	6,335,601
	\$ 42,600,515	\$ 50,792,803	\$ 52,865,837	\$ 51,722,584	\$ 197,981,739

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Balance, End  
of Period (e)

Increase	\$ 5,550,348	\$ 8,861,464	\$ 9,387,046	\$ 6,302,441	\$ 30,101,299
Increase	15%	21%	22%	14%	18%

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	Year Ended December 31,									
	Private Equity	Real Estate	2015 Hedge Fund Solutions	Credit (h)	Total (Dollars in Thousands)	Private Equity	Real Estate	2014 Hedge Fund Solutions	Credit (h)	Total
Total Assets Under Management Balance, Beginning of Period	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Inflows, including Commitments	30,034,911	29,473,697	11,040,950	23,035,118	93,584,676	13,677,363	11,080,384	11,428,764	21,072,695	57,259,204
Outflows, including Distributions	(406,955)	(342,233)	(5,559,483)	(6,372,790)	(12,681,461)	(1,624,064)	(896,394)	(5,430,780)	(3,763,200)	(11,714,431)
Realizations	(13,493,163)	(21,016,540)	(554,584)	(7,605,824)	(42,670,111)	(15,379,066)	(20,389,808)	(416,882)	(9,301,444)	(45,487,200)
Net Inflows (Outflows)	16,134,793	8,114,924	4,926,883	9,056,504	38,233,104	(3,325,767)	(10,205,818)	5,581,102	8,008,051	57,566,703
Market Appreciation (Depreciation)	5,072,029	4,939,713	592,872	(2,834,212)	7,770,402	10,723,988	11,658,217	2,347,105	(163,439)	24,565,873
Balance, End of Period (e)	\$ 94,280,074	\$ 93,917,824	\$ 69,105,425	\$ 79,081,252	\$ 336,384,575	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069
Change	\$ 21,206,822	\$ 13,054,637	\$ 5,519,755	\$ 6,222,292	\$ 46,003,506	\$ 7,398,221	\$ 1,452,399	\$ 7,928,207	\$ 7,844,612	\$ 24,623,431
Change	29%	16%	9%	9%	16%	11%	2%	14%	12%	9%

	Year Ended December 31, 2013				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total
Total Assets Under Management Balance, Beginning of Period	\$ 51,002,973	\$ 56,695,645	\$ 46,092,505	\$ 56,428,837	\$ 210,219,960
Inflows, including Commitments (a)	14,420,278	17,686,592	9,337,644	19,040,769	60,485,283
Outflows, including Distributions (b)	(653,357)	(1,049,598)	(3,854,587)	(2,519,238)	(8,076,780)
Realizations (c)	(9,584,276)	(8,298,220)	(447,960)	(11,799,676)	(30,130,132)
Net Inflows (Outflows)	4,182,645	8,338,774	5,035,097	4,721,855	22,278,371
Market Appreciation (Depreciation) (d)(g)	10,489,413	14,376,369	4,529,861	3,863,656	33,259,299

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Balance, End of Period (e)	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Increase	\$ 14,672,058	\$ 22,715,143	\$ 9,564,958	\$ 8,585,511	\$ 55,537,670
Increase	29%	40%	21%	15%	26%

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments).
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.

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- (e) Fee-Earning Assets Under Management and Assets Under Management as of December 31, 2015 included \$94.6 million and \$115.8 million, respectively, from a joint venture in which we are the minority interest holder.
- (f) For the year ended December 31, 2015, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was \$(17.0) million, \$(642.4) million, \$(999.2) million and \$(1.7) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2014, such impact was \$(11.8) million, \$(957.4) million, \$(1.3) billion and \$(2.3) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2013, such impact was \$5.7 million, \$188.5 million, \$470.0 million and \$664.2 million for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (g) For the year ended December 31, 2015, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was \$(508.1) million, \$(1.9) billion, \$(1.1) billion and \$(3.5) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2014, such impact was \$(357.1) million, \$(2.0) billion, \$(1.5) billion and \$(3.8) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2013, such impact was \$(249.2) million, \$69.3 million, \$469.9 million and \$290.0 million for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (h) On December 31, 2015, the Credit segment refined the classification of required dividend payments from its business development companies and certain long only investment vehicles for purposes of reporting the roll forward components of Fee-Earning and Total Assets Under Management. Historically, these amounts had been reported as Outflows and they are now reported as Realizations. Furthermore, dividends had previously been reported net of reinvestments but now the reinvestments are reported as Inflows. All historical periods have been recast to conform to the new definition.

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$246.1 billion at December 31, 2015, an increase of \$29.5 billion, or 14%, compared to \$216.7 billion at December 31, 2014. The net increase was due to:

Inflows of \$68.6 billion related to:

\$27.7 billion in our Real Estate segment primarily related to \$15.6 billion raised for BREP VIII, \$7.2 billion raised/invested for BPP, \$1.5 billion invested for BREP VII post its investment period, \$1.1 billion invested for BREDS II and \$1.0 billion raised for BXMT,

\$17.3 billion in our Credit segment driven by \$4.8 billion raised in CLO launches, \$4.8 billion raised in our business development companies ( BDCs ), \$3.6 billion raised in our drawdown funds and \$2.0 billion raised in our Hedge Fund Strategies,

\$13.9 billion in our Private Equity segment primarily due to \$5.0 billion raised in our Tactical Opportunities platform, \$4.5 billion raised for Blackstone Energy Partners II, \$1.0 billion raised from Strategic Partners and \$850.3 million of inflows from BTAS, and

\$9.7 billion in our Hedge Fund Solutions segment mainly related to growth in its customized, commingled, and individual investor solutions products, and additional closings on the general partner interests vehicle.

Offsetting these increases were:

Realizations of \$20.5 billion primarily driven by:

\$8.5 billion in our Real Estate segment primarily due to realizations of \$4.4 billion in BREP global and European opportunistic funds, \$2.6 billion in BREDS and \$769.2 million in BREP co-investment,

\$6.3 billion in our Credit segment primarily due to \$3.8 billion capital returned to CLO investors from CLOs that are post their re-investment periods, \$1.4 billion capital returned to investors in drawdown funds and \$776.3 million capital returned to investors in BDC funds, and



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\$5.1 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from BCP V and our Strategic Partners fund of funds.

Outflows of \$16.7 billion primarily attributable to:

\$5.7 billion in our Credit segment, which includes \$3.6 billion of redemptions due to investors' general liquidity needs as well as their paring back in credit investments,

\$5.4 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners and certain strategic shifts in their programs,

\$4.2 billion in our Real Estate segment primarily due to \$4.0 billion of uninvested reserves at the close of BREP VII's investment period, and

\$1.4 billion in our Private Equity segment primarily from the end of the investment periods for BEP and Tactical Opportunities initial platform of separately managed accounts as well as our outflows in our Strategic Partners fund of funds.

Market depreciation of \$1.9 billion principally due to solid returns from the BAAM Principal Solutions ( BPS ) Composite funds in our Hedge Fund Solutions segment offset by \$2.4 billion in market depreciation in our Credit segment. The \$2.4 billion in market depreciation in our Credit segment, which includes \$999.2 million of foreign exchange depreciation, is primarily driven by \$1.3 billion in market depreciation from our U.S. and Europe CLOs, \$613.4 million in market depreciation from our hedge fund strategies and \$518.7 million in market depreciation from our BDCs.

BAAM had net inflows of \$1.3 billion from January 1 through February 1, 2016.

Fee-Earning Assets Under Management were \$216.7 billion at December 31, 2014, an increase of \$18.7 billion, or 9%, compared to \$198.0 billion at December 31, 2013. The net increase was due to:

Inflows of \$50.2 billion related to:

\$19.8 billion in our Credit segment driven by \$5.5 billion raised in CLO launches, \$5.2 billion raised in our business development companies ( BDCs ), \$3.9 billion raised in hedge fund strategies and \$2.4 billion of capital deployed in our mezzanine and rescue lending funds,

\$12.0 billion in our Hedge Fund Solutions segment mainly related to growth in its customized and commingled products and co-investment platform, additional closings on the general partner interests vehicle and the launch of BAAM's second alternative investment-focused mutual fund and first liquid alternative UCITS structure fund,

\$11.5 billion in our Real Estate segment primarily related to \$3.1 billion capital raised and/or invested for BREDS, \$3.0 billion raised for BREP Europe IV, \$1.8 billion raised for BREP Asia, \$874.0 million raised for BPP and \$779.5 million raised for BXMT, and

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\$6.8 billion in our Private Equity segment primarily due to fundraising related to Strategic Partners sixth fund as well as additional capital raised for our Tactical Opportunities investment vehicles.

Market appreciation of \$453.1 million principally due to solid returns from the BPS Composite funds in our Hedge Fund Solutions segment offset by \$1.4 billion in market depreciation for U.S. and European CLOs in the Credit segment principally due to foreign exchange depreciation and \$751.6 million in our Real Estate segment principally due to foreign exchange depreciation.

Offsetting these increases were:

Realizations of \$21.7 billion primarily driven by:

\$8.7 billion in our Real Estate segment primarily due to realizations of \$2.7 billion from BREP VI, \$2.5 billion from BREDS, \$1.5 billion from BREP co-investment, \$1.0 billion from BREP V and \$565.3 million from BREP Europe III,

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\$7.9 billion in our Credit segment primarily due to \$5.2 billion returned to CLO investors from CLOs that are post their reinvestment periods and \$1.8 billion returned across the Mezzanine and Rescue Lending funds, and

\$4.7 billion in our Private Equity segment primarily resulting from \$3.3 billion return of capital from our BCP V fund including public share sales of Hilton, Pinnacle, and Nielsen and strategic sales in Apria, United Biscuits and Mivisa, and \$1.0 billion of fee earning realizations in Strategic Partners.

Outflows of \$10.2 billion primarily attributable to:

\$5.4 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners and certain strategic shifts in their programs, and

\$3.5 billion in our Credit segment primarily from our long-only platform, hedge fund strategies and business development companies.

*Total Assets Under Management*

Total Assets Under Management were \$336.4 billion at December 31, 2015, an increase of \$46.0 billion, or 16%, compared to \$290.4 billion at December 31, 2014. The net increase was due to:

Inflows of \$93.6 billion primarily related to:

\$30.0 billion in our Private Equity segment primarily related to \$18.0 billion raised for the seventh private equity fund (the corresponding Fee-Earning Assets Under Management Inflow will occur when the investment period for this fund commences), \$7.0 billion raised for Tactical Opportunities, \$2.2 billion raised from Strategic Partners and \$714.2 million of inflows from BTAS,

\$29.5 billion in our Real Estate segment attributable to \$16.0 billion raised for BREP VIII, \$6.9 billion raised for BPP, \$1.3 billion raised during the initial closing for the third real estate debt strategies fund, \$1.0 billion raised for BXMT, and \$740.3 million raised for BREP co-investment,

\$23.0 billion in our Credit segment primarily due to \$5.0 billion raised from CLO launches, \$4.8 billion raised for BDCs, \$3.9 billion raised in our energy focused products, \$3.6 billion raised in European senior debt strategies, \$2.5 billion raised in our other long only funds and \$2.0 billion raised in hedge fund strategies, and

\$11.0 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management.

Market appreciation of \$7.8 billion due to:

\$5.1 billion appreciation in our Private Equity segment driven by significant returns in funds across the segment,

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\$4.9 billion net appreciation in our Real Estate segment driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6% offset by public portfolio depreciation of 8.6%, and by \$1.9 billion of foreign exchange depreciation, and

\$2.8 billion depreciation in our Credit segment due to reasons noted above in Fee-Earning Asset Under Management, including \$1.1 billion attributable to foreign currency depreciation.

Offsetting these increases were:

Realizations of \$42.7 billion driven by:

\$21.0 billion in our Real Estate segment due to realizations across the segment with 78% of realizations generated from the BREP Global and European opportunistic platform, including co-investment,

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\$13.5 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund and Strategic Partners fund of funds, and

\$7.6 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds.

Outflows of \$12.7 billion primarily attributable to:

\$6.4 billion in our Credit segment primarily due to reasons noted above in Fee-Earning Assets Under Management, and

\$5.6 billion in our Hedge Fund Solutions segment due to reasons noted above in Fee-Earning Assets Under Management. Total Assets Under Management were \$290.4 billion at December 31, 2014, an increase of \$24.6 billion, or 9%, compared to \$265.8 billion at December 31, 2013. The net increase was due to:

Inflows of \$57.3 billion primarily related to:

\$21.1 billion in our Credit segment due to the reasons noted above in Fee-Earning Assets Under Management,

\$13.7 billion in our Private Equity segment due primarily to capital raised for Strategic Partners sixth fund of funds, our second energy focused fund and additional capital raised for our Tactical Opportunities investment vehicles,

\$11.4 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management, and

\$11.1 billion in our Real Estate segment attributable to \$3.1 billion raised for BREP Europe IV, \$2.3 billion raised for BPP, \$1.8 billion raised for BREP Asia, \$1.2 billion raised for BREDS and \$779.5 million raised for BXMT.

Market appreciation of \$24.6 billion due to:

\$11.7 billion in our Real Estate segment driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion),

\$10.7 billion in our Private Equity segment driven by significant returns in funds across the segment, primarily in BCP V and BCP VI, and

\$2.3 billion in our Hedge Fund Solutions segment driven by the BPS Composite up 7.0% gross (5.9% net).

Offsetting these increases were:

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Realizations of \$45.5 billion driven by:

\$20.4 billion in our Real Estate segment due to realizations of \$7.3 billion in BREP VI, \$3.6 billion in BREP co-investment, \$2.4 billion in BREP V, \$2.1 billion in BREP VII, \$2.0 billion in BREDS and \$1.4 billion in BREP Europe III,

\$15.4 billion in our Private Equity segment due to execution on monetization opportunities across our corporate private equity portfolio, and

\$9.3 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds and BDCs.

Outflows of \$11.7 billion primarily attributable to:

\$5.4 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners and certain strategic shifts in their programs.

\$3.8 billion in our Credit segment primarily due to reasons noted above in Fee-Earning Assets Under Management.

**Table of Contents***Limited Partner Capital Invested*

The following presents the limited partner capital invested during the respective periods:

Note: Totals in graph may not add due to rounding.

	Year Ended December 31,			2014 vs. 2013		2015 vs. 2014	
	2013	2014	2015	\$	%	\$	%
Limited Partner Capital Invested							
Private Equity	\$ 2,568,582	\$ 9,623,273	\$ 10,219,178	\$ 7,054,691	275%	\$ 595,905	6%
Real Estate	9,741,277	11,235,142	16,259,362	1,493,865	15%	5,024,220	45%
Hedge Fund Solutions	431,275	854,128	243,241	422,853	98%	(610,887)	-72%
Credit	1,438,570	2,656,958	3,783,265	1,218,388	85%	1,126,307	42%
Total	\$ 14,179,704	\$ 24,369,501	\$ 30,505,046	\$ 10,189,797	72%	\$ 6,135,545	25%

Limited Partner Capital Invested was \$30.5 billion for the year ended December 31, 2015, an increase of \$6.1 billion, or 25%, from \$24.4 billion for the year ended December 31, 2014. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative size and timing of investment closings within those segments. Our Private Equity segment deployed greater capital in 2015 than in 2014 as we found strong opportunities that fit within our investment philosophy for our corporate private equity funds as well as increased capital deployment opportunities within our Tactical Opportunities and Strategic Partners businesses. Our Real Estate segment deployed \$16.3 billion of capital in 2015, a 45% increase from 2014 primarily due to a significant increase in investment activity in BPP. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform and general partner interests vehicle. In our Credit segment, capital deployed for the year ended December 31, 2015, was higher compared to the year ended December 31, 2014 primarily due to a greater number of investment opportunities in our carry funds that fit within our investment philosophy, notably within the energy sector and European direct lending space.

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The following presents the committed undrawn capital available for investment ( dry powder ) as of December 31, 2015, 2014 and 2013:

Note: Totals may not add due to rounding. Amounts are as of December 31 of each year.

- (a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.



**Table of Contents***Net Accrued Performance Fees*

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of December 31, 2015 and 2014. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 18. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing. The net accrued performance fee as of each reporting date is principally unrealized carried interest and incentive fees which, if realized, can be a significant component of Distributable Earnings.

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Dollars in Millions)</b>	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 144	\$ 282
BCP V Carried Interest	288	1,050
BCP VI Carried Interest	359	233
BEP Carried Interest	48	63
Tactical Opportunities Carried Interest	52	24
BTAS Carried Interest	3	
Strategic Partners Carried Interest	36	4
Other Carried Interest	1	1
<b>Total Private Equity (a)</b>	<b>931</b>	<b>1,657</b>
<b>Real Estate</b>		
BREP IV Carried Interest	20	18
BREP V Carried Interest	497	602
BREP VI Carried Interest	628	1,113
BREP VII Carried Interest	608	605
BREP VIII Carried Interest	7	
BREP Europe III Carried Interest	186	183
BREP Europe IV Carried Interest	121	37
BREP Asia Carried Interest	54	17
BPP Carried Interest	28	14
BREDS Carried Interest	12	14
BPP Incentive Fees	12	
BREDS Incentive Fees	6	2
Asia Platform Incentive Fees	7	7
<b>Total Real Estate (a)</b>	<b>2,186</b>	<b>2,612</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	38	76
<b>Total Hedge Fund Solutions</b>	<b>38</b>	<b>76</b>
<b>Credit</b>		
Carried Interest	77	175
Incentive Fees	19	32
<b>Total Credit</b>	<b>96</b>	<b>207</b>
<b>Total Blackstone</b>		
Carried Interest	3,169	4,435
Incentive Fees	82	117

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Net Accrued Performance Fees	\$ 3,251	\$ 4,552
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(a) Private Equity and Real Estate include Co-Investments.

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*Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:

Note: Totals may not add due to rounding. Amounts are as of December 31.

- (a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.
- (b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

*Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant drawdown funds from inception through December 31, 2015:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	Public %	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$	\$		N/A	\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100				N/A	3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422				N/A	9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	155,610	1.6x	71%	2,808,140	1.4x	2,963,750	1.4x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	220,676	2,148,444	1.3x	30%	18,896,847	3.2x	21,045,291	2.8x	43%	36%
BCP V (Dec 2005 / Jan 2011)	21,025,483	1,261,713	11,213,593	1.5x	73%	25,866,084	2.0x	37,079,677	1.8x	11%	8%
BCP VI (Jan 2011 / Jan 2017)	15,186,676	3,437,279	14,556,872	1.3x	25%	2,010,281	1.9x	16,567,153	1.4x	51%	12%
BEP I (Aug 2011 / Feb 2015)	2,439,096	208,049	2,694,285	1.3x	21%	539,484	2.0x	3,233,769	1.4x	57%	16%
BEP II (Feb 2015 / Feb 2021)	4,951,351	4,940,725	10,627	1.0x			N/A	10,627	1.0x	N/A	N/M
BCP VII (TBD)	18,000,000	18,000,000			N/A		N/A		N/A	N/A	N/A
Total Corporate Private Equity	76,700,721	28,267,740	30,779,431	1.4x	43%	64,304,081	2.3x	95,083,512	1.9x	19%	16%
Tactical Opportunities	13,047,121	6,928,783	6,594,346	1.1x	5%	1,272,843	1.5x	7,867,189	1.2x	32%	12%
Strategic Partners I-V and Co-Investment	12,001,300	2,198,999	4,401,532	2.6x		12,857,614	1.3x	17,259,146	1.5x	N/A	14%
Strategic Partners VI	6,701,331	2,116,999	3,282,072	1.2x		334,323	0.2x	3,616,395	0.8x	N/A	63%
Other Funds and Co-Investment (d)	3,013,278	1,308,318	1,395,181	1.1x	35%	227,280	1.3x	1,622,461	1.1x	N/A	N/M
Total Private Equity	\$ 111,463,751	\$ 40,820,839	\$ 46,452,562	1.4x	30%	\$ 78,996,141	1.9x	\$ 125,448,703	1.7x	19%	15%
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$	\$		N/A	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708				N/A	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339				N/A	2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708				N/A	3,336,402	2.4x	3,336,402	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		713,015	0.7x	14%	3,900,618	2.2x	4,613,633	1.7x	40%	13%
BREP V (Dec 2005 / Feb 2007)	5,539,418		4,440,351	2.3x	28%	8,393,813	2.2x	12,834,164	2.2x	13%	11%
BREP VI (Feb 2007 / Aug 2011)	11,059,523	584,008	7,592,592	2.1x	65%	17,662,251	2.4x	25,254,843	2.3x	15%	13%
BREP VII (Aug 2011 / Apr 2015)	13,490,570	2,565,752	16,088,059	1.6x	1%	8,031,818	1.9x	24,119,877	1.7x	33%	23%
BREP VIII (Apr 2015 / Oct 2020)	15,940,743	12,797,781	3,389,563	1.1x			N/A	3,389,563	1.1x	N/A	15%

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Total Global BREP	\$ 51,471,417	\$ 15,947,541	\$ 32,223,580	1.6x	20%	\$ 45,529,413	2.2x	\$ 77,752,993	1.9x	22%	17%
<b>Euro</b>											
BREP Int I (Jan 2001 / Sep 2005)	824,172			N/A		1,366,154	2.1x	1,366,154	2.1x	23%	23%
BREP Int I II (Sep 2005 / Jun 2008)	1,629,748	54,138	520,843	1.1x	63%	1,714,266	1.8x	2,235,109	1.6x	8%	5%
BREP Europe III (Jun 2008 / Sep 2013)	3,205,140	471,643	3,380,172	1.9x	4%	2,496,255	2.2x	5,876,427	2.0x	24%	19%
BREP Europe IV (Sep 2013 / Mar 2019)	6,695,866	2,185,988	6,246,497	1.3x		405,114	1.4x	6,651,611	1.3x	33%	19%
Total Euro BREP	12,354,926	2,711,769	10,147,512	1.4x	4%	5,981,789	2.0x	16,129,301	1.6x	16%	14%
BREP Co-Investment (e)	\$ 6,109,088	\$	\$ 5,686,895	1.7x	66%	\$ 6,156,862	2.3x	\$ 11,843,757	1.9x	17%	16%
BREP Asia (Jun 2013 / Dec 2017)	5,078,300	2,781,959	2,939,592	1.3x		85,048	1.7x	3,024,640	1.3x	33%	13%
Total BREP	\$ 78,732,628	\$ 21,675,024	\$ 53,661,654	1.5x	20%	\$ 59,746,625	2.2x	\$ 113,408,279	1.8x	20%	16%
BPP (f)	\$ 10,323,584	\$ 2,237,310	\$ 9,029,698	1.1x		\$	N/A	\$ 9,029,698	1.1x	N/A	18%
BREDS (g)	\$ 7,024,734	\$ 2,549,256	\$ 2,398,503	1.2x		\$ 5,456,371	1.3x	\$ 7,854,874	1.3x	13%	12%
<b>Hedge Fund Solutions</b>											
BSCH (Dec 2013 / Jun 2020) (h)	\$ 3,300,600	\$ 3,015,378	\$ 287,802	1.1x		\$ 57,987	N/A	\$ 345,789	1.3x	N/A	6%
BSCH Co-Investment	75,500	75,500		N/A			N/A		N/A	N/A	N/A
Total Hedge Fund Solutions	\$ 3,376,100	\$ 3,090,878	\$ 287,802	1.1x		\$ 57,987	N/A	\$ 345,789	1.3x	N/A	6%

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments		Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b) Public	Value	MOIC (b)	Value	MOIC (b) Realized	Total	
<b>Credit (i)</b>										
<b>Dollar</b>										
Mezzanine I (Jul 2007 / Oct 2011)	\$ 2,000,000	\$ 99,280	\$ 457,313	1.7x	\$ 4,396,393	1.6x	\$ 4,853,706	1.6x	N/A	18%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	2,001,026	2,806,501	1.1x	1,811,700	1.4x	4,618,201	1.2x	N/A	14%
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	553,131	1,670,415	1.2x	4,092,198	1.5x	5,762,613	1.4x	N/A	12%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	2,973,619	2,286,253	1.0x	88,846	1.1x	2,375,099	1.0x	N/A	5%
Energy Select Opportunities (Nov 2015 / Nov 2018)	2,856,866	2,533,928	323,839	1.0x		N/A	323,839	1.0x	N/A	N/M
Total Dollar Credit	\$ 17,355,009	\$ 8,160,984	\$ 7,544,321	1.1x	\$ 10,389,137	1.5x	\$ 17,933,458	1.3x	N/A	14%
<b>Euro</b>										
European Senior Debt (Feb 2015 / Feb 2018)	1,964,689	3,411,806	547,859	1.0x	142,288	1.2x	690,147	1.1x	N/A	N/M
Total Euro Credit	1,964,689	3,411,806	547,859	1.0x	142,288	1.2x	690,147	1.1x	N/A	N/M
Total Credit	\$ 19,621,419	\$ 11,867,603	\$ 8,139,805	1.1x	\$ 10,546,606	1.5x	\$ 18,686,411	1.3x	N/A	14%

N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital ( MOIC ) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return ( IRR ) represents the annualized inception to December 31, 2015 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Returns for Other Funds and Co-Investment are not meaningful as these funds have limited transaction activity
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) BPP, or Blackstone Property Partners, are the core+ real estate funds which invest with a more moderate risk profile and lower leverage.
- (g) Excludes Capital Trust drawdown funds.
- (h) BSCH is a permanent capital vehicle focused on acquiring strategic minority positions in alternative asset managers.
- (i) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.4x, 1.6x and 1.1x, respectively. Funds presented represent flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the six credit drawdown funds presented.

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**Segment Analysis**

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to our sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

**Table of Contents****Private Equity**

The following table presents the results of operations for our Private Equity segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 502,640	\$ 415,841	\$ 368,146	\$ 86,799	21%	\$ 47,695	13%
Advisory Fees	10,561	21,903	24,313	(11,342)	-52%	(2,410)	-10%
Transaction and Other Fees, Net	36,258	135,718	97,678	(99,460)	-73%	38,040	39%
Management Fee Offsets	(36,760)	(19,146)	(5,683)	(17,614)	92%	(13,463)	237%
<b>Total Management Fees, Net</b>	<b>512,699</b>	<b>554,316</b>	<b>484,454</b>	<b>(41,617)</b>	<b>-8%</b>	<b>69,862</b>	<b>14%</b>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	1,474,987	754,402	329,993	720,585	96%	424,409	129%
<b>Unrealized</b>							
Carried Interest	(717,955)	1,222,828	398,232	(1,940,783)	N/M	824,596	207%
<b>Total Performance Fees</b>	<b>757,032</b>	<b>1,977,230</b>	<b>728,225</b>	<b>(1,220,198)</b>	<b>-62%</b>	<b>1,249,005</b>	<b>172%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	189,649	202,719	88,026	(13,070)	-6%	114,693	130%
<b>Unrealized</b>							
Carried Interest	(116,338)	(23,914)	161,749	(92,424)	386%	(185,663)	N/M
<b>Total Investment Income</b>	<b>73,311</b>	<b>178,805</b>	<b>249,775</b>	<b>(105,494)</b>	<b>-59%</b>	<b>(70,970)</b>	<b>-28%</b>
Interest and Dividend Revenue	33,218	21,993	15,625	11,225	51%	6,368	41%
Other	5,854	6,569	4,259	(715)	-11%	2,310	54%
<b>Total Revenues</b>	<b>1,382,114</b>	<b>2,738,913</b>	<b>1,482,338</b>	<b>(1,356,799)</b>	<b>-50%</b>	<b>1,256,575</b>	<b>85%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	280,248	280,499	240,150	(251)	-0%	40,349	17%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	256,922	266,393	38,953	(9,471)	-4%	227,440	584%
<b>Unrealized</b>							
Carried Interest	(10,172)	210,446	342,733	(220,618)	N/M	(132,287)	-39%
<b>Total Compensation and Benefits</b>	<b>526,998</b>	<b>757,338</b>	<b>621,836</b>	<b>(230,340)</b>	<b>-30%</b>	<b>135,502</b>	<b>22%</b>
Other Operating Expenses	199,158	143,562	124,499	55,596	39%	19,063	15%
<b>Total Expenses</b>	<b>726,156</b>	<b>900,900</b>	<b>746,335</b>	<b>(174,744)</b>	<b>-19%</b>	<b>154,565</b>	<b>21%</b>
<b>Economic Income</b>	<b>\$ 655,958</b>	<b>\$ 1,838,013</b>	<b>\$ 736,003</b>	<b>\$ (1,182,055)</b>	<b>-64%</b>	<b>\$ 1,102,010</b>	<b>150%</b>

N/M Not meaningful.



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Note As a result of the spin-off on October 1, 2015 of Blackstone's Financial Advisory business, which did not include BXCM, the results of BXCM were reclassified from the Financial Advisory segment to the Private Equity segment. All prior periods have been recast to reflect this reclassification.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$1.4 billion for the year ended December 31, 2015, a decrease of \$1.4 billion compared to \$2.7 billion for the year ended December 31, 2014. The decrease in revenues was attributable to decreases in Performance Fees, Investment Income, and Total Management Fees, Net of \$1.2 billion, \$105.5 million and \$41.6 million, respectively.

The decline in 2015 revenues in our Private Equity segment was significantly driven by a decline in unrealized Performance Fees. The reduction in Unrealized Performance Fees was primarily due to negative swings in the marks of our publicly-traded Private Equity portfolio companies as a result of macroeconomic concerns and declining public equity markets. If macroeconomic conditions were to deteriorate in the future with a resulting decline in our Private Equity fund investments, revenues in our Private Equity segment would likely continue to be negatively impacted. While unrealized markdowns in energy had a more limited impact on declining revenues in 2015, a sustained period of depressed oil and gas prices would likely adversely affect our Private Equity revenues.

Performance Fees, which are determined on a fund by fund basis, were \$757.0 million for the year ended December 31, 2015, a decrease of \$1.2 billion, compared to \$2.0 billion for the year ended December 31, 2014, principally due to the performance in our corporate private equity funds, which generated overall solid net performance which was, however, lower than the net returns in 2014. The returns in these funds were driven by strong operating performance across most of our private and public portfolios.

Investment Income was \$73.3 million for the year ended December 31, 2015, a decrease of \$105.5 million, compared to \$178.8 million for the year ended December 31, 2014, primarily due to our BCP V and BCP VI funds which generated strong net returns of 8.1% and 7.9%, respectively, for the year, but were slightly lower than the returns generated in the full year 2014 mainly as a result of the lower returns in our public portfolio.

Total Management Fees were \$512.7 million for the year ended December 31, 2015, a decrease of \$41.6 million compared to \$554.3 million for the year ended December 31, 2014, driven primarily by decreases in Transaction and Other Fees, Net and Management Fee Offsets, partially offset by an increase in Base Management Fees. Transaction and Other Fees were \$36.3 million for the year ended December 31, 2015, a decrease of \$99.5 million compared to \$135.7 million for the year ended December 31, 2014, primarily due to the timing of investment closings and the elimination of monitoring fee termination payments. Management Fee Offsets were \$(36.8) million for the year ended December 31, 2015, a decrease of \$17.6 million compared to \$(19.1) million for the year ended December 31, 2014, primarily due to the increased offset rates in recent funds. Base Management Fees were \$502.6 million for the year ended December 31, 2015, an increase of \$86.8 million compared to \$415.8 million for the year ended December 31, 2014, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business.

*Expenses*

Expenses were \$726.2 million for the year ended December 31, 2015, a decrease of \$174.7 million, compared to \$900.9 million for the year ended December 31, 2014. The decrease was primarily attributable to a decrease of \$230.1 million in Performance Fee Compensation, slightly offset by a \$55.6 million increase in Other Operating Expenses. Performance Fee Compensation decreased as a result of the decrease in Performance Fees Revenue. The increase in Other Operating Expenses was primarily due to non-recurring costs related to the SEC settlement, an increase in interest allocated to the segment and certain one-time costs associated with fundraising.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Revenues were \$2.7 billion for the year ended December 31, 2014, an increase of \$1.3 billion compared to \$1.5 billion for the year ended December 31, 2013. The increase in revenues was attributable to increases in Performance Fees and Total Management Fees, Net of \$1.2 billion and \$69.9 million, respectively, partially offset by a decrease in Investment Income of \$71.0 million.

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Performance Fees, which are determined on a fund by fund basis, were \$2.0 billion for the year ended December 31, 2014, an increase of \$1.2 billion, compared to \$728.2 million for the year ended December 31, 2013, principally due to the performance in our BCP V and BCP VI funds, which generated net returns of 24% and 18%, respectively with BCP V crossing its preferred return threshold during the period. The returns in these funds were driven by both the private and public portfolios, from strong operating performance across the portfolio as well as the initial public offerings for Michaels Stores, Catalent and Vivint's solar business.

Total Management Fees were \$554.3 million for the year ended December 31, 2014, an increase of \$69.9 million compared to \$484.5 million for the year ended December 31, 2013, driven primarily by increases in Base Management Fees and Transaction and Other Fees, Net. Base Management Fees were \$415.8 million for the year ended December 31, 2014, an increase of \$47.7 million compared to \$368.1 million for the year ended December 31, 2013, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business as well as the inclusion of the Strategic Partners management fees for the full year. Transaction and Other Fees were \$135.7 million for the year ended December 31, 2014, an increase of \$38.0 million compared to \$97.7 million for the year ended December 31, 2013, primarily due to fees earned related to transaction closings.

Investment Income was \$178.8 million for the year ended December 31, 2014, a decrease of \$71.0 million, compared to \$249.8 million for the year ended December 31, 2013, primarily due to our BCP V and BEP funds which generated strong net returns of 24% and 12%, respectively, for the year, but were slightly lower than the returns generated in the full year 2013.

*Expenses*

Expenses were \$900.9 million for the year ended December 31, 2014, an increase of \$154.6 million, compared to \$746.3 million for the year ended December 31, 2013. The increase was primarily attributable to increases of \$95.2 million in Performance Fee Compensation, \$40.3 million in Compensation, and \$19.1 million in Other Operating Expenses. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Compensation increased primarily due to an increase in revenue on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest allocated to the segment.

*Fund Returns*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (b)	Year Ended December 31,						December 31, 2015			
	2015		2014 (a)		2013 (a)		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	-6%	-6%	-4%	-2%	27%	23%	57%	43%	50%	36%
BCP V	11%	8%	35%	24%	38%	35%	13%	11%	10%	8%
BCOM	50%	49%	12%	20%	8%	-2%	14%	7%	13%	6%
BCP VI	11%	8%	24%	18%	24%	13%	65%	51%	19%	12%
BEP I	-5%	-4%	15%	12%	47%	36%	61%	57%	21%	16%
BEP II (c)	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Tactical Opportunities	12%	8%	22%	17%	20%	13%	39%	32%	16%	12%
Strategic Partners	22%	19%	24%	20%	8%	6%	N/A	N/A	18%	15%

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**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective fund's general and limited partners.
- (b) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- (c) BEP II's investment returns are presented as N/M as its investment period commenced in February 2015.

The corporate private equity funds within the Private Equity segment have four contributed funds with closed investment periods: BCP IV, BCP V, BCOM and BEP I. As of December 31, 2015, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V main fund and BCP V-AC fund. Within these fund classes, the general partner (GP) is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. During the quarter, both fund classes were above their respective Carried Interest thresholds. BCOM is currently above its Carried Interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses. BEP I is currently above its Carried Interest threshold.

**Table of Contents****Real Estate**

The following table presents the results of operations for our Real Estate segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 668,575	\$ 628,502	\$ 565,182	\$ 40,073	6%	\$ 63,320	11%
Transaction and Other Fees, Net	110,577	91,610	79,675	18,967	21%	11,935	15%
Management Fee Offsets	(26,840)	(34,443)	(22,821)	7,603	-22%	(11,622)	51%
<b>Total Management Fees, Net</b>	<b>752,312</b>	<b>685,669</b>	<b>622,036</b>	<b>66,643</b>	<b>10%</b>	<b>63,633</b>	<b>10%</b>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	1,634,733	1,487,762	486,773	146,971	10%	1,000,989	206%
Incentive Fees	17,153	11,499	45,862	5,654	49%	(34,363)	-75%
<b>Unrealized</b>							
Carried Interest	(680,542)	524,046	1,651,700	(1,204,588)	N/M	(1,127,654)	-68%
Incentive Fees	20,802	(5,521)	(28,753)	26,323	N/M	23,232	-81%
<b>Total Performance Fees</b>	<b>992,146</b>	<b>2,017,786</b>	<b>2,155,582</b>	<b>(1,025,640)</b>	<b>-51%</b>	<b>(137,796)</b>	<b>-6%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
	235,582	309,095	52,359	(73,513)	-24%	256,736	490%
<b>Unrealized</b>							
	(231,889)	(58,930)	350,201	(172,959)	293%	(409,131)	N/M
<b>Total Investment Income</b>	<b>3,693</b>	<b>250,165</b>	<b>402,560</b>	<b>(246,472)</b>	<b>-99%</b>	<b>(152,395)</b>	<b>-38%</b>
Interest and Dividend Revenue	43,990	30,197	21,563	13,793	46%	8,634	40%
Other	(1,422)	2,863	3,384	(4,285)	N/M	(521)	-15%
<b>Total Revenues</b>	<b>1,790,719</b>	<b>2,986,680</b>	<b>3,205,125</b>	<b>(1,195,961)</b>	<b>-40%</b>	<b>(218,445)</b>	<b>-7%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	358,381	326,317	294,222	32,064	10%	32,095	11%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	484,037	432,996	148,837	51,041	12%	284,159	191%
Incentive Fees	8,678	5,980	23,878	2,698	45%	(17,898)	-75%
<b>Unrealized</b>							
Carried Interest	(196,347)	197,174	566,837	(393,521)	N/M	(369,663)	-65%
Incentive Fees	8,817	(2,751)	(15,015)	11,568	N/M	12,264	-82%
<b>Total Compensation and Benefits</b>	<b>663,566</b>	<b>959,716</b>	<b>1,018,759</b>	<b>(296,150)</b>	<b>-31%</b>	<b>(59,043)</b>	<b>-6%</b>
Other Operating Expenses	179,175	146,083	116,391	33,092	23%	29,692	26%
<b>Total Expenses</b>	<b>842,741</b>	<b>1,105,799</b>	<b>1,135,150</b>	<b>(263,058)</b>	<b>-24%</b>	<b>(29,351)</b>	<b>-3%</b>
<b>Economic Income</b>	<b>\$ 947,978</b>	<b>\$ 1,880,881</b>	<b>\$ 2,069,975</b>	<b>\$ (932,903)</b>	<b>-50%</b>	<b>\$ (189,094)</b>	<b>-9%</b>

N/M Not meaningful.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$1.8 billion for the year ended December 31, 2015, a decrease of \$1.2 billion compared to \$3.0 billion for the year ended December 31, 2014. The decrease in revenues was primarily attributable to decreases in Performance Fees and Investment Income of \$1.0 billion and \$246.5 million, respectively, partially offset by an increase in Total Management Fees, Net of \$66.6 million.

The decline in 2015 revenues in our Real Estate segment was significantly driven by a decline in unrealized Performance Fees. The reduction in Unrealized Performance Fees was primarily due to negative swings in the marks of our publicly-traded Real Estate equity investments, particularly in lodging, as a result of a decline in public equity markets in 2015. If macroeconomic conditions were to deteriorate in the future with a resulting decline in our Real Estate fund investments, revenues in our Real Estate segment would likely continue to be negatively impacted.

Performance Fees, which are determined on a fund by fund basis, were \$992.1 million for the year ended December 31, 2015, a decrease of \$1.0 billion compared to \$2.0 billion for the year ended December 31, 2014. Performance Fees decreased by \$1.0 billion due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 20.9% to 9.7%. For the year ended December 31, 2015, the increase in carrying value of assets for Blackstone's contributed Real Estate opportunistic funds was driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6% offset by public portfolio depreciation of 8.6%. Our BREDS drawdown and real estate hedge funds appreciated 13.0% and 2.9%, respectively.

Investment Income was \$3.7 million for the year ended December 31, 2015, a decrease of \$246.5 million compared to \$250.2 million for the year ended December 31, 2014. The decrease in Investment Income was due to a year over year net depreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds.

Total Management Fees, Net were \$752.3 million for the year ended December 31, 2015, an increase of \$66.6 million compared to \$685.7 million for the year ended December 31, 2014, primarily attributable to increases in Base Management Fees. Base Management Fees were \$668.6 million for the year ended December 31, 2015, an increase of \$40.1 million compared to \$628.5 million for the year ended December 31, 2014. The increase was principally due to fees generated from fundraising within BREP VIII, BPP and invested capital within BREDS, partially offset by realizations across the portfolio.

*Expenses*

Expenses were \$842.7 million for the year ended December 31, 2015, a decrease of \$263.1 million, compared to \$1.1 billion for the year ended December 31, 2014. The decrease was primarily attributable to a decrease of Performance Fee Compensation of \$328.2 million, partially offset by increases in Compensation and Other Operating Expenses of \$32.1 million and \$33.1 million, respectively. The decrease in Performance Fee Compensation is the result of a decrease in Performance Fees Revenue. The increase in Compensation is due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment and certain one-time costs associated with fundraising.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Revenues were \$3.0 billion for the year ended December 31, 2014, a decrease of \$218.4 million compared to \$3.2 billion for the year ended December 31, 2013. The decrease in revenues was primarily attributable to decreases in Investment Income and Performance Fees of \$152.4 million and \$137.8 million, respectively, partially offset by an increase in Total Management Fees, Net of \$63.6 million.

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Investment Income was \$250.2 million for the year ended December 31, 2014, a decrease of \$152.4 million compared to \$402.6 million for the year ended December 31, 2013. The decrease in Investment Income was due to a year over year decrease in the net appreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds.

Performance Fees, which are determined on a fund by fund basis, were \$2.0 billion for the year ended December 31, 2014, a decrease of \$137.8 million compared to \$2.2 billion for the year ended December 31, 2013. Performance Fees decreased by \$137.8 million due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 31.3% to 20.9%. For the year ended December 31, 2014, the increase in carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments was driven by sustained strong operating fundamentals in the private portfolio and public portfolio appreciation. Our BREDS drawdown and real estate hedge funds appreciated 7.2% and 5.3%, respectively.

Total Management Fees, Net were \$685.7 million for the year ended December 31, 2014, an increase of \$63.6 million compared to \$622.0 million for the year ended December 31, 2013, primarily attributable to increases in Base Management Fees. Base Management Fees were \$628.5 million for the year ended December 31, 2014, an increase of \$63.3 million compared to \$565.2 million for the year ended December 31, 2013. The increase was principally due to fees generated from fundraising within BREP Europe IV, BREP Asia, BPP and invested capital within BREDS, partially offset by the expiration of BREP V and realizations across the portfolio.

### *Expenses*

Expenses were \$1.1 billion for the year ended December 31, 2014, a decrease of \$29.4 million, compared to \$1.1 billion for the year ended December 31, 2013. The decrease was primarily attributable to a decrease of Performance Fee Compensation of \$91.1 million, partially offset by increases in Compensation and Other Operating Expenses of \$32.1 million and \$29.7 million, respectively. The decrease in Performance Fee Compensation is the result of a decrease in Performance Fees Revenue. The increase in Compensation is due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment as well as increases in business development and professional fees.

### *Fund Returns*

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.



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The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Year Ended December 31,						December 31, 2015				
	2015		2014		2013		Realized		Total		
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
BREP IV	-2%	-2%	12%	9%	28%	21%	65%	40%	23%	13%	
BREP V	16%	14%	25%	21%	19%	15%	17%	13%	15%	11%	
BREP International II (b)	20%	17%	27%	25%	32%	30%	10%	8%	7%	5%	
BREP VI	-2%	-2%	20%	17%	43%	35%	20%	15%	17%	13%	
BREP Europe III (b)	21%	17%	32%	25%	23%	17%	36%	24%	29%	19%	
BREP VII	19%	14%	33%	25%	41%	29%	46%	33%	32%	23%	
BREP VIII	N/M	N/M	N/A	N/A	N/A	N/A	N/A	N/A		53%	15%
BREP Asia	22%	13%	19%	10%	N/M	N/M	50%	33%	23%	13%	
BREP Europe IV (b)	27%	19%	32%	20%	N/M	N/M	54%	33%	29%	19%	
BREDS	14%	9%	15%	10%	15%	11%	17%	13%	16%	12%	
BSSF I	4%	2%	14%	10%	14%	10%	N/A	N/A	15%	11%	
CMBS	2%	1%	9%	6%	11%	7%	N/A	N/A	15%	10%	
BREIF	7%	4%	4%	2%	N/A	N/A	N/A	N/A	7%	4%	
BPP	17%	15%	28%	24%	N/A	N/A	N/A	N/A	20%	18%	
BREP Co-Investment (c)			24%	22%	43%	39%	19%	17%	18%	16%	

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

N/M Not meaningful.

N/A Not applicable.

(a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.

(b) Euro-based net internal rates of return.

(c) Excludes fully realized co-investments prior to Blackstone's initial public offering.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of December 31, 2015:

Fully Invested Funds	Gain to Cross Carried Interest Threshold (a)		
	Amount	% Change in	% Change in
		Total Enterprise Value (b)	Equity Value
BREP Int I II (Sep 2005 / Jun 2008)	779	46%	161%

(a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.

(b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value. The Real Estate segment has seven funds in their investment period, which were above their respective Carried Interest thresholds as of December 31, 2015: BREP VIII, BREP Asia, BREP Europe IV and four funds within BREDS II.



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The following table presents the results of operations for our Hedge Fund Solutions segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 524,386	\$ 482,981	\$ 409,321	\$ 41,405	9%	\$ 73,660	18%
Transaction and Other Fees, Net	317	569	623	(252)	-44%	(54)	-9%
Management Fee Offsets	171	(5,014)	(3,387)	5,185	N/M	(1,627)	48%
<b>Total Management Fees, Net</b>	<b>524,874</b>	<b>478,536</b>	<b>406,557</b>	<b>46,338</b>	<b>10%</b>	<b>71,979</b>	<b>18%</b>
<b>Performance Fees</b>							
<b>Realized</b>							
Incentive Fees	68,197	140,529	207,735	(72,332)	-51%	(67,206)	-32%
<b>Unrealized</b>							
Carried Interest	2,021			2,021	N/M		N/M
Incentive Fees	(8,084)	(879)	7,718	(7,205)	820%	(8,597)	N/M
<b>Total Performance Fees</b>	<b>62,134</b>	<b>139,650</b>	<b>215,453</b>	<b>(77,516)</b>	<b>-56%</b>	<b>(75,803)</b>	<b>-35%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
	(12,741)	21,550	27,613	(34,291)	N/M	(6,063)	-22%
<b>Unrealized</b>							
	(1,435)	5,132	(9,306)	(6,567)	N/M	14,438	N/M
<b>Total Investment Income (Loss)</b>	<b>(14,176)</b>	<b>26,682</b>	<b>18,307</b>	<b>(40,858)</b>	<b>N/M</b>	<b>8,375</b>	<b>46%</b>
Interest and Dividend Revenue	17,274	11,114	7,605	6,160	55%	3,509	46%
Other	200	1,855	688	(1,655)	-89%	1,167	170%
<b>Total Revenues</b>	<b>590,306</b>	<b>657,837</b>	<b>648,610</b>	<b>(67,531)</b>	<b>-10%</b>	<b>9,227</b>	<b>1%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	179,484	131,658	136,470	47,826	36%	(4,812)	-4%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Incentive Fees	27,155	42,451	65,793	(15,296)	-36%	(23,342)	-35%
<b>Unrealized</b>							
Carried Interest	823			823	N/M		N/M
Incentive Fees	(2,912)	(273)	2,856	(2,639)	967%	(3,129)	N/M
<b>Total Compensation and Benefits</b>	<b>204,550</b>	<b>173,836</b>	<b>205,119</b>	<b>30,714</b>	<b>18%</b>	<b>(31,283)</b>	<b>-15%</b>
Other Operating Expenses	90,072	86,129	66,966	3,943	5%	19,163	29%
<b>Total Expenses</b>	<b>294,622</b>	<b>259,965</b>	<b>272,085</b>	<b>34,657</b>	<b>13%</b>	<b>(12,120)</b>	<b>-4%</b>
<b>Economic Income</b>	<b>\$ 295,684</b>	<b>\$ 397,872</b>	<b>\$ 376,525</b>	<b>\$ (102,188)</b>	<b>-26%</b>	<b>\$ 21,347</b>	<b>6%</b>

N/M Not meaningful.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$590.3 million for the year ended December 31, 2015, a decrease of \$67.5 million compared to \$657.8 million for the year ended December 31, 2014. The decrease in revenues was primarily attributable to

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decreases in Performance Fees and Investment Income of \$77.5 million and \$40.9 million, respectively, partially offset by an increase in Total Management Fees, Net of \$46.3 million.

In 2015, Hedge Fund Solutions operated in an environment generally characterized by declines in equity and fixed income asset prices. In that connection, global markets experienced significant volatility during 2015, with the CBOE volatility index reaching its highest levels since 2011. Notwithstanding these market conditions, the BPS Composite gross return was positive 2.9% during 2015, outperforming the S&P 500 and the HFRX Hedge Fund Index. In the future, however, if global asset prices continue to decline or liquidity needs cause investors to withdraw assets, Hedge Fund Solutions revenues would likely continue to be negatively impacted. Nonetheless, Hedge Fund Solutions operates multiple business lines, manages strategies that are both long and short asset classes and generates a majority of its revenue through management fees, all of which provide a level of downside protection to Hedge Fund Solutions revenues.

Performance Fees were \$62.1 million for the year ended December 31, 2015, a decrease of \$77.5 million compared to \$139.7 million for the year ended December 31, 2014. This was primarily due to lower returns. The net returns of the underlying assets within the BPS Composite funds were 2.1% during the year ended December 31, 2015.

Investment Loss was \$14.2 million for the year ended December 31, 2015, a decrease of \$40.9 million compared to Investment Income of \$26.7 million for the year ended December 31, 2014. The decrease in Investment Income was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

Total Management Fees, Net were \$524.9 million for the year ended December 31, 2015, an increase of \$46.3 million compared to \$478.5 million for the year ended December 31, 2014, primarily due to an increase in Base Management Fees. Base Management Fees were \$524.4 million for the year ended December 31, 2015, an increase of \$41.4 million compared to \$483.0 million for the year ended December 31, 2014. This was driven by an increase in Fee-Earning Assets Under Management of 7% from the prior year, which was from net inflows and market appreciation.

*Expenses*

Expenses were \$294.6 million for the year ended December 31, 2015, an increase of \$34.7 million compared to the year ended December 31, 2014. The increase was primarily attributable to a \$47.8 million increase in Compensation, and a \$3.9 million increase in Other Operating Expenses, partially offset by a \$17.1 million decrease in Performance Fee Compensation. Compensation was \$179.5 million for the year ended December 31, 2015, an increase of \$47.8 million compared to \$131.7 million for the prior year, due to an overall increase in Management Fees, on which a portion of compensation is based, an increase in headcount to support the growth of the business and a change in the terms of Deferred Compensation Plan awards. Other Operating Expenses were \$90.1 million for the year ended December 31, 2015, an increase of \$3.9 million compared to \$86.1 million for the year ended December 31, 2014. The increase in Other Operating Expenses was primarily due to interest allocated to the segment. Performance Fee Compensation was \$25.1 million for the year ended December 31, 2015, a decrease of \$17.1 million compared to \$42.2 million for the year ended December 31, 2014 due to the decrease in Performance Fees Revenue.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Revenues were \$657.8 million for the year ended December 31, 2014, an increase of \$9.2 million compared to \$648.6 million for the year ended December 31, 2013. The increase in revenues was primarily attributable to increases in Total Management Fees, Net and Investment Income of \$72.0 million and \$8.4 million, respectively, partially offset by a decrease in Performance Fees of \$75.8 million.

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Total Management Fees, Net were \$478.5 million for the year ended December 31, 2014, an increase of \$72.0 million compared to \$406.6 million for the year ended December 31, 2013, primarily due to an increase in Base Management Fees. Base Management Fees were \$483.0 million for the year ended December 31, 2014, an increase of \$73.7 million compared to \$409.3 million for the year ended December 31, 2013. This was driven by an increase in Fee-Earning Assets Under Management of 16% from the prior year, which was from net inflows and market appreciation.

Investment Income was \$26.7 million for the year ended December 31, 2014, an increase of \$8.4 million compared to \$18.3 million for the year ended December 31, 2013. The increase in Investment Income was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

Performance Fees were \$139.7 million for the year ended December 31, 2014, a decrease of \$75.8 million compared to \$215.5 million for the year ended December 31, 2013. This was primarily due to lower returns. The net returns of the underlying assets within the BPS Composite funds were 5.9% during the year ended December 31, 2014.

*Expenses*

Expenses were \$260.0 million for the year ended December 31, 2014, a decrease of \$12.1 million compared to the year ended December 31, 2013. The decrease was primarily attributable to a \$26.5 million decrease in Performance Fee Compensation and a \$4.8 million decrease in Compensation, partially offset by a \$19.2 million increase in Other Operating Expenses. Performance Fee Compensation was \$42.2 million for the year ended December 31, 2014, a decrease of \$26.5 million compared to \$68.6 million for the year ended December 31, 2013 due to the decrease in Performance Fees Revenue. Compensation was \$131.7 million for the year ended December 31, 2014, a decrease of \$4.8 million compared to \$136.5 million for the prior year, due to a change in the terms of Deferred Compensation Plan awards which more than offset the increase in Management Fees. Other Operating Expenses were \$86.1 million for the year ended December 31, 2014, an increase of \$19.2 million compared to \$67.0 million for the year ended December 31, 2013, primarily resulting from an increase in interest expense allocated to the segment as well as an increase in professional fees.

*Operating Metrics*

The following table presents information regarding our Incentive Fee-Earning Assets Under Management:

	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark/Benchmark (a)		
	December 31, 2013	December 31, 2014	December 31, 2015	2013	2014	2015
	(Dollars in Thousands)					
BAAM Managed Funds (b)	\$ 28,640,505	\$ 34,732,386	\$ 35,831,499	97%	94%	81%

Note: Totals in graph may not add due to rounding.

- (a) Estimated % Above High Water Mark/Benchmark represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance relative to a benchmark, where applicable. Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark or clear a benchmark return, thereby resulting in an increase in Estimated % Above High Water Mark/Benchmark.
- (b) For the BAAM managed funds, at December 31, 2015 the incremental appreciation needed for the 19% of Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks to reach their respective High Water Marks/Benchmarks was \$236.6 million, an increase of \$178.9 million, or 310.2%, compared to \$57.7 million at December 31, 2014. Of the Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks as of December 31, 2015, 93% were within 5% of reaching their respective High Water Mark.

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*Composite Returns*

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

The following table presents the return information of the BAAM Managed Funds, BAAM Principal Solutions Composite:

Composite	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2015							
	One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	3%	2%	7%	6%	6%	5%	7%	6%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions Composite, formerly known as BAAM's Core Funds Composite, covers the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Principal Solutions Composite does not include BAAM's individual investor solutions (i.e., liquid alternatives), long-only equity, long-biased commodities, ventures (i.e., seeding and minority interests) and strategic opportunities (i.e., co-investments), and Senfina (direct trading) platforms except where a BPS fund invests directly into those platforms. BAAM's advisory platforms and liquidating funds are also excluded. On a net of fees basis, the BPS Composite was up 0.2% for the quarter and 2.1% for the full year. The historical return is from January 1, 2000.

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The following table presents the results of operations for our Credit segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 500,982	\$ 460,205	\$ 398,158	\$ 40,777	9%	\$ 62,047	16%
Transaction and Other Fees, Net	6,371	18,161	28,586	(11,790)	-65%	(10,425)	-36%
Management Fee Offsets	(30,065)	(28,168)	(40,329)	(1,897)	7%	12,161	-30%
<b>Total Management Fees, Net</b>	<b>477,288</b>	<b>450,198</b>	<b>386,415</b>	<b>27,090</b>	<b>6%</b>	<b>63,783</b>	<b>17%</b>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	96,156	208,432	127,192	(112,276)	-54%	81,240	64%
Incentive Fees	109,396	109,717	220,736	(321)	-0%	(111,019)	-50%
<b>Unrealized</b>							
Carried Interest	(198,820)	(37,913)	108,078	(160,907)	424%	(145,991)	N/M
Incentive Fees	(19,967)	(23,025)	1,107	3,058	-13%	(24,132)	N/M
<b>Total Performance Fees</b>	<b>(13,235)</b>	<b>257,211</b>	<b>457,113</b>	<b>(270,446)</b>	<b>N/M</b>	<b>(199,902)</b>	<b>-44%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	7,186	9,354	4,098	(2,168)	-23%	5,256	128%
<b>Unrealized</b>							
Unrealized	(16,258)	5,055	13,951	(21,313)	N/M	(8,896)	-64%
<b>Total Investment Income (Loss)</b>	<b>(9,072)</b>	<b>14,409</b>	<b>18,049</b>	<b>(23,481)</b>	<b>N/M</b>	<b>(3,640)</b>	<b>-20%</b>
Interest and Dividend Revenue	24,599	23,040	18,146	1,559	7%	4,894	27%
Other	5,171	(2,310)	527	7,481	N/M	(2,837)	N/M
<b>Total Revenues</b>	<b>484,751</b>	<b>742,548</b>	<b>880,250</b>	<b>(257,797)</b>	<b>-35%</b>	<b>(137,702)</b>	<b>-16%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	190,189	188,200	186,514	1,989	1%	1,686	1%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	52,841	116,254	69,411	(63,413)	-55%	46,843	67%
Incentive Fees	50,113	61,668	111,244	(11,555)	-19%	(49,576)	-45%
<b>Unrealized</b>							
Carried Interest	(107,000)	(28,583)	57,147	(78,417)	274%	(85,730)	N/M
Incentive Fees	(8,395)	(16,252)	508	7,857	-48%	(16,760)	N/M
<b>Total Compensation and Benefits</b>	<b>177,748</b>	<b>321,287</b>	<b>424,824</b>	<b>(143,539)</b>	<b>-45%</b>	<b>(103,537)</b>	<b>-24%</b>
Other Operating Expenses	93,626	90,524	96,940	3,102	3%	(6,416)	-7%
<b>Total Expenses</b>	<b>271,374</b>	<b>411,811</b>	<b>521,764</b>	<b>(140,437)</b>	<b>-34%</b>	<b>(109,953)</b>	<b>-21%</b>
<b>Economic Income</b>	<b>\$ 213,377</b>	<b>\$ 330,737</b>	<b>\$ 358,486</b>	<b>\$ (117,360)</b>	<b>-35%</b>	<b>\$ (27,749)</b>	<b>-8%</b>



N/M Not meaningful.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$484.8 million for the year ended December 31, 2015, which were \$257.8 million lower compared to \$742.5 million for the year ended December 31, 2014. The decrease in revenues was primarily attributable to lower Performance Fees and Investment Income of \$270.4 million and \$23.5 million, respectively, partially offset by an increase of \$27.1 million in Total Management Fees, Net.

During the fourth quarter of 2015, the credit markets experienced widening credit spreads and significant illiquidity, particularly for below investment grade credit. In addition, energy-related issuers, which represent a significant component of the below investment grade credit markets, are operating in an environment in which oil and natural gas prices have declined materially to their lowest levels in years. Performance in all three of our alternative credit strategies was negatively impacted in the fourth quarter of 2015 by the performance of our energy investments, declines in the credit market, underperformance in certain event-driven assets and technical pressure caused by year-end selling. In the near term continued market pressure may further affect these marks. In any event, if below investment grade credit, and energy, remain depressed or subject to highly volatile market conditions, revenues in our Credit segment would likely continue to be negatively impacted.

Performance Fee Losses were \$13.2 million for the year ended December 31, 2015, which were \$270.4 million lower compared to the prior year. This decrease was primarily due to lower rates of appreciation in our hedge fund strategies business as well as our mezzanine and rescue lending businesses. The net returns of Blackstone's significant Credit segment funds were -5.8% for Hedge Fund Strategies, -2.2% for Mezzanine Strategies and -8.8% for Rescue Lending Strategies for the year ended December 31, 2015.

Investment Loss was \$9.1 million for the year ended December 31, 2015, which were \$23.5 million lower compared to the prior year. This decrease was primarily due to the unrealized investment losses in hedge fund strategies, mezzanine funds and long only funds.

Total Management Fees, Net were \$477.3 million for the year ended December 31, 2015, an increase of \$27.1 million compared to \$450.2 million for the year ended December 31, 2014. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our hedge fund strategies business and our business development companies.

*Expenses*

Expenses were \$271.4 million for the year ended December 31, 2015, a decrease of \$140.4 million compared to \$411.8 million for the year ended December 31, 2014. The decrease in expenses was primarily attributable to a decrease of \$145.5 million in Performance Fee Compensation. The decrease in Performance Fee Compensation was due to lower Performance Fees Revenue.

*Year Ended December 31, 2014 Compared to December 31, 2013*

*Revenues*

Revenues were \$742.5 million for the year ended December 31, 2014, which were \$137.7 million lower compared to \$880.3 million for the year ended December 31, 2013. The decrease in revenues was primarily attributable to lower Performance Fees of \$199.9 million, partially offset by an increase of \$63.8 million in Total Management Fees, Net.

Performance Fees were \$257.2 million for the year ended December 31, 2014, which were \$199.9 million lower compared to the prior year. This decrease was primarily due to lower rates of appreciation in our hedge fund strategies business and our rescue lending business. The net returns of Blackstone's significant Credit segment funds were 0.1% for Hedge Fund Strategies, 17.6% for Mezzanine Fund Strategies and 11.9% for Rescue Lending Strategies for the year ended December 31, 2014.

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Total Management Fees, Net were \$450.2 million for the year ended December 31, 2014, an increase of \$63.8 million compared to \$386.4 million for the year ended December 31, 2013. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our hedge fund strategies business and our business development companies.

*Expenses*

Expenses were \$411.8 million for the year ended December 31, 2014, a decrease of \$110.0 million compared to \$521.8 million for the year ended December 31, 2013. The decrease in expenses was primarily attributable to a decrease of \$105.2 million in Performance Fee Compensation. The decrease in Performance Fee Compensation was due to lower Performance Fees Revenue.

*Fund Returns*

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

As of December 31, 2015, the Credit segment's returns reflect composite returns for funds included within each alternative strategy as set forth below. Previously, these returns reflected only the composite returns for the flagship funds in each strategy. The historical returns presented in the tables below have been updated to conform to the current presentation.

The following table presents composite return information of the segment's Hedge Fund Strategies funds:

Fund	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2015							
	One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Hedge Fund Strategies (b)	-4%	-6%	7%	4%	9%	6%	11%	7%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Average annual returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The Hedge Fund Strategies' returns represent a weighted-average composite of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The historical returns are from August 1, 2005.

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The following table presents combined internal rates of return of the segment's Mezzanine Strategies funds and Rescue Lending Strategies funds:

Composite (a)	Year Ended December 31,						Inception to December 31, 2015	
	2015		2014		2013		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mezzanine Strategies (b)	-1%	-2%	23%	18%	26%	18%	23%	16%
Rescue Lending Strategies (c)	-11%	-9%	15%	12%	33%	24%	16%	12%

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- (b) The Mezzanine Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The inception to date returns are from July 16, 2007.
- (c) The Rescue Lending Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end. The inception to date returns are from September 29, 2009.

As of December 31, 2015, one drawdown fund within Rescue Lending Strategies return was 1% below the Carried Interest threshold. For the Mezzanine Lending Strategies return, two funds representing 11.2% of the fair value included in the return were below their Carried Interest threshold.

**Financial Advisory**

The following table presents the results of operations for our Financial Advisory segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
Advisory Fees	\$ 297,570	\$ 398,942	\$ 386,201	\$ (101,372)	-25%	\$ 12,741	3%
Transaction and Other Fees, Net	162	379	415	(217)	-57%	(36)	-9%
Total Advisory and Transaction Fees	297,732	399,321	386,616	(101,589)	-25%	12,705	3%
<b>Investment Income (Loss)</b>							
Realized	(868)	707	(1,625)	(1,575)	N/M	2,332	N/M
Unrealized	(39)	860	739	(899)	N/M	121	16%
Total Investment Income (Loss)	(907)	1,567	(886)	(2,474)	N/M	2,453	N/M
Interest and Dividend Revenue	12,520	10,000	7,997	2,520	25%	2,003	25%
Other	(1,303)	428	1,450	(1,731)	N/M	(1,022)	-70%
Total Revenues	308,042	411,316	395,177	(103,274)	-25%	16,139	4%
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	180,917	226,837	258,284	(45,920)	-20%	(31,447)	-12%
Other Operating Expenses	62,326	87,484	81,843	(25,158)	-29%	5,641	7%

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Total Expenses	243,243	314,321	340,127	(71,078)	-23%	(25,806)	-8%
Economic Income	\$ 64,799	\$ 96,995	\$ 55,050	\$ (32,196)	-33%	\$ 41,945	76%

N/M Not meaningful.

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As a result of the spin-off on October 1, 2015 of Blackstone's Financial Advisory business, which did not include BXCM, the results of BXCM were reclassified from the Financial Advisory segment to the Private Equity segment. All prior periods have been recast to reflect this reclassification. Subsequent to September 30, 2015, the former Financial Advisory segment is reporting no revenues, no expenses, and no results. The table presented above is for comparative purposes only.

### **Liquidity and Capital Resources**

#### ***General***

Blackstone's business model derives revenue primarily from third party assets under management. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long-term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, and pay distributions to unitholders.

Fluctuations in our statement of financial condition result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, Non-Controlling Interests in Consolidated Entities and Appropriated Partners' Capital in the Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our statement of financial condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$22.5 billion as of December 31, 2015, down \$9.0 billion from December 31, 2014. The decrease was principally due to a decrease in Investments of \$8.4 billion. Total liabilities were \$10.3 billion as of December 31, 2015, a decrease of \$3.9 billion from December 31, 2014. The decrease was principally due to a decrease in Loans Payable of \$2.8 billion. The decreases in total assets and total liabilities was primarily due to the adoption as of January 1, 2015 of new accounting consolidation guidance which resulted in the deconsolidation of certain Blackstone Funds.

For the year ended December 31, 2015, we had Total Fee Related Revenues of \$2.6 billion and related expenses of \$1.6 billion, generating Fee Related Earnings of \$935.6 million and Distributable Earnings of \$3.8 billion.

#### ***Sources of Liquidity***

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010, 2012, 2014 and 2015 issuances of senior notes. As of December 31, 2015, Blackstone had \$1.8 billion in cash, \$2.2 billion invested in Blackstone's Treasury Cash Management Strategies, \$159.8 million invested in liquid Blackstone Funds, \$1.9 billion invested in illiquid Blackstone Funds and \$129.5 million invested in other investments, against \$2.8 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

On April 27, 2015, Blackstone issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

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On May 19, 2015, Blackstone issued \$300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025.

In addition to the cash we received from our debt offerings and availability under our committed revolving credit facility, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.

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The following table calculates Blackstone's Fee Related Earnings, Distributable Earnings and Economic Net Income:

- (a) Represents the total segment amounts of the respective captions. See Note 21. Segment Reporting in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.
- (b) Detail on this amount is included in the table below.
- (c) Represents the current tax provision calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents equity-based award expense included in Economic Income.
- (e) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.



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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

- (a) Represents the total segment amounts of the respective captions. See Note 21. Segment Reporting in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.
- (b) Represents equity-based award expense included in Economic Income, which excludes all transaction-related equity-based charges.
- (c) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.

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The following table is a reconciliation of Net Income Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

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- (a) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents Interest Income and Dividend Revenue less Interest Expense.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto. Equals the sum of Net Realized Incentive Fee and Net Realized Carried Interest.
- (j) Represents the adjustment for Blackstone's Investment Income (Loss) Realized.
- (k) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (l) Represents equity-based award expense included in EI, which excludes all transaction-related equity-based charges.

**Table of Contents****Liquidity Needs**

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of December 31, 2015 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VII	\$ 500,000	\$ 500,000	\$ 225,000	\$ 225,000
BCP VI	719,718	186,033	250,000	64,620
BCP V	629,356	40,519		
BEP I	50,000	5,460		
BEP II	80,000	80,000	26,667	26,667
Tactical Opportunities	227,060	113,985	48,020	24,106
Strategic Partners	170,316	113,019	20,294	12,582
Other (b)	216,362	20,971		
<b>Real Estate Funds</b>				
BREP VIII	300,000	241,722	100,000	80,574
BREP VII	300,000	56,048	100,000	18,683
BREP VI	750,000	38,840	150,000	7,768
BREP Europe III	100,000	13,231	35,000	4,631
BREP Europe IV	130,000	38,268	43,333	12,756
BREP Asia	50,392	23,424	16,797	7,808
BREDS II	50,000	26,693	16,667	8,898
CT Opportunity Partners I (b)	25,000	23,410		
Other (c)	149,201	32,206		
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033		
Strategic Alliance II	50,000	1,482		
Strategic Alliance III	2,000	2,000		
Strategic Holdings LP	50,000	45,847		
Other (c)	800	611		
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	98,356	110,115	51,693
GSO Capital Solutions II	125,000	56,334	119,755	94,229
Blackstone/GSO Capital Solutions	50,000	9,462	27,666	5,236
BMezz II	17,692	3,085		
GSO Credit Alpha Fund LP	52,102	34,852	50,493	33,776
GSO Euro Senior Debt Fund LP	63,000	59,842	57,223	54,355
GSP Energy Select Opportunities Fund	80,000	73,750	75,044	69,181
Other (c)	87,631	43,454	15,035	7,912
<b>Other</b>				
Treasury	38,417	9,534		
<b>Total</b>	<b>\$ 5,234,047</b>	<b>\$ 1,994,471</b>	<b>\$ 1,487,109</b>	<b>\$ 810,475</b>

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- (a) For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective

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funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described above will be more than sufficient to fund our working capital requirements.

(b) Represents a legacy fund managed by us as a result of the 2012 acquisition of the investment advisory business of BXMT.

(c) Represents capital commitments to a number of other funds in each respective segment.

Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. In April 2014, Blackstone Holdings Finance Co. L.L.C. issued \$500 million in aggregate principal amount of 5.000% Senior Notes which will mature on June 15, 2044, unless earlier redeemed or repurchased. In April 2015, Blackstone Holdings Finance Co. L.L.C. issued \$350 million in aggregate principal amount of 4.450% Senior Notes which will mature on July 15, 2045, unless earlier redeemed or repurchased. In May 2015, Blackstone Holdings Finance Co. L.L.C. issued 300 million in aggregate principal amount of 2.000% Senior Notes which will mature on May 19, 2025, unless earlier redeemed or repurchased. (These Senior Notes are collectively referred to as the Notes.) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2015, no units were repurchased. As of December 31, 2015, the amount remaining under this program available for repurchases was \$335.8 million.

### ***Distributions***

Distributable Earnings, which is derived from Blackstone's segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable

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Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

The following chart shows fiscal quarterly and annual per common unitholder distributions for 2013, 2014 and 2015. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.

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With respect to fiscal year 2015, we have paid to common unitholders distributions of \$0.89, \$0.74, \$0.49 and \$0.61 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.73 per common unit. With respect to fiscal years 2014 and 2013, we paid aggregate common unitholder distributions of \$2.12 per common unit and \$1.34 per common unit, respectively.

With respect to fiscal year 2015, we have paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.90, \$0.74, \$0.49 and \$0.65 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.78 per Blackstone Holdings Partnership Unit. With respect to fiscal years 2014 and 2013, we paid aggregate distributions of \$2.46 per Blackstone Holdings Partnership Unit and \$1.52 per Blackstone Holdings Partnership Unit, respectively.

**Leverage**

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, our Treasury Cash Management Strategies may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles.

Generally our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Real Estate debt hedge funds, Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

The following table presents information regarding these financial instruments in our Consolidated Statements of Financial Condition:

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements (Dollars in Millions)</b>	<b>Securities Sold, Not Yet Purchased</b>
Balance, December 31, 2015	\$ 204.9	\$ 40.9	\$ 176.7
Balance, December 31, 2014	\$	\$ 29.9	\$ 85.9
Year Ended December 31, 2015			
Average Daily Balance	\$ 92.9	\$ 61.9	\$ 172.5
Maximum Daily Balance	\$ 236.2	\$ 147.2	\$ 281.9

**Critical Accounting Policies**

We prepare our Consolidated Financial Statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of



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assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.)

### ***Principles of Consolidation***

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities ( VIE ) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

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The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-focused funds:

0.25% to 2.00% of committed capital or invested capital during the investment period,

0.25% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and

1.00% to 1.50% of invested capital or net asset value subsequent to the investment period for certain credit-focused funds.

On real estate and credit-focused funds structured like hedge funds:

1.50% of net asset value.

On credit-focused separately managed accounts:

0.35% to 1.35% of net asset value.

On real estate separately managed accounts:

0.50% to 2.00% of invested capital, net operating income or net asset value.

On funds of hedge funds and separately managed accounts invested in hedge funds:

0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 0.65% of total assets.

On credit-focused registered and non-registered investment companies:

0.35% to 1.50% of fund assets or net asset value.

The investment adviser of BXMT receives annual management fees based upon 1.50% of BXMT's net proceeds received from equity offerings and accumulated core earnings (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ( management fee reductions ) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund

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placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* Performance Fees earned on the performance of Blackstone's hedge fund structures ( Incentive Fees ) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds ( Carry Funds ), performance fees ( Carried Interest ) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as

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dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### ***Expenses***

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

### ***Fair Value of Financial Instruments***

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

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Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.

Level III Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. For periods prior to the adoption of new CLO measurement guidance, senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

*Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

Upon adoption of the new CLO measurement guidance adopted January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

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*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ( cap rates ) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Credit-Focused Investments* The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method. On the adoption of new accounting guidance as of January 1, 2015 and the application of a permitted measurement alternative, such liabilities are valued based on the more observable fair value of related assets held by CLO vehicles less (a) the fair value of any beneficial interests held by Blackstone and (b) the carrying value of any beneficial interest that represent compensation for services.

*Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation

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committee chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

***Investments, at Fair Value***

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies), at fair value. Such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.



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Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. Fair Value Option in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.

The investments of consolidated Blackstone Funds in funds of hedge funds ( Investee Funds ) are valued at net asset value ( NAV ) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. Net Asset Value as Fair Value in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.

## **Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

Management has organized the firm into four operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill.

The carrying value of goodwill was \$1.7 billion and \$1.8 billion as of December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, we determined there was no evidence of Goodwill impairment.

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**Off-Balance Sheet Arrangements**

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing as follows:

Note 6. Derivative Financial Instruments ,

Note 9. Variable Interest Entities , and

Note 18. Commitments and Contingencies Commitments, Operating Leases; Commitments, Investment Commitments; and Contingencies, Guarantees.

**Recent Accounting Developments**

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.

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The following table sets forth information relating to our contractual obligations as of December 31, 2015 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	2016	2017-2018	2019-2020	Thereafter	Total
	(Dollars in Thousands)				
Operating Lease Obligations (a)	\$ 75,076	\$ 146,836	\$ 130,986	\$ 490,835	\$ 843,733
Purchase Obligations	23,748	20,574	4,333	4	48,659
Blackstone Issued Notes and Revolving Credit Facility (b)			585,000	2,227,990	2,812,990
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	147,458	288,032	249,276	1,412,674	2,097,440
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	4,453	519,318		3,395,009	3,918,780
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	75,651	137,702	131,874	470,539	815,766
Blackstone Funds Capital Commitments to Investee Funds (f)	48,633				48,633
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)	72,766	142,208	182,566	830,398	1,227,938
Unrecognized Tax Benefits, Including Interest and Penalties (h)	5,630				5,630
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	1,994,471				1,994,471
<b>Consolidated Contractual Obligations</b>	<b>2,447,886</b>	<b>1,254,670</b>	<b>1,284,035</b>	<b>8,827,449</b>	<b>13,814,040</b>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(4,453)	(519,318)		(3,395,009)	(3,918,780)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(75,651)	(137,702)	(131,874)	(470,539)	(815,766)
Blackstone Funds Capital Commitments to Investee Funds (f)	(48,633)				(48,633)
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$ 2,319,149</b>	<b>\$ 597,650</b>	<b>\$ 1,152,161</b>	<b>\$ 4,961,901</b>	<b>\$ 9,030,861</b>

- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of December 31, 2015, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of

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- December 31, 2015, at spreads to market rates pursuant to the financing agreements, and range from 0.33% to 7.00%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.
- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
  - (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated Financial Statements and shown in Note 17. Related Party Transactions (see Item 8. Financial Statements and Supplementary Data) differs to reflect the net present value of the payments due to certain non-controlling interest holders.
  - (h) The total represents gross unrecognized tax benefits of \$3.2 million and interest and penalties of \$2.4 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$12.5 million and interest of \$5.0 million; therefore, such amounts are not included in the above contractual obligations table.
  - (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

In connection with the spin-off of our financial and strategic advisory services, restructuring and reorganization advisory service and Park Hill group businesses, certain of the Blackstone equity awards held by PJT Partners' personnel who remained employed with PJT Partners through the spin-off were converted into equity awards of PJT Partners. As described under Certain Relationships and Related Party Transactions Agreements with Blackstone Related to the Spin-Off Employee Matters Agreement in the Form 10 filed by PJT Partners Inc. on September 3, 2015, if in the first 180 calendar days following the spin-off the value of the PJT Partners' personnel's converted equity award is less than the value that the relinquished Blackstone award would have had over the same period, Blackstone will pay (in cash, Blackstone equity or PJT Partners equity, at Blackstone's discretion) certain true-up awards to PJT Partners' personnel. As an illustrative example, \$8.3 million would be payable by Blackstone pursuant to this true-up requirement if the true-up awards were calculated as of December 31, 2015.

**Guarantees**

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 18. Commitments and Contingencies Contingencies Guarantees in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.

**Indemnifications**

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated Financial Statements as of December 31, 2015.

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***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds, including available contemplated extensions, for which a liability for potential clawback obligations has been recorded for financial reporting purposes, are currently anticipated to expire at various points through 2028. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

As of December 31, 2015, the total clawback obligations were \$3.4 million, of which \$1.7 million related to current and former Blackstone personnel and \$1.7 million related to Blackstone Holdings. If, at December 31, 2015, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of carried interest subject to potential clawback would be \$4.4 billion, on an after tax basis where applicable, of which \$4.1 billion related to Blackstone Holdings and \$370.5 million related to current and former Blackstone personnel. (See Note 17. Related Party Transactions and Note 18. Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of this filing.)

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.

In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

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Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the years ended December 31, 2015 and December 31, 2014, the approximate percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Year Ended December 31,	
	2015	2014
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	34%	36%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of December 31, 2015 and December 31, 2014, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2015		2014			
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 85,463	\$ 1,296,886	\$ 250,246	\$ 86,002	\$ 1,725,051	\$ 268,053

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

Total Assets Under Management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	December 31, 2015	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 50,433,836	54%
Real Estate	\$ 66,146,413	82%
Credit	\$ 44,555,315	54%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I. Item 1A. Risk



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Factors above. Also see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Investments, at Fair Value. ) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund; however, if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

**Exchange Rate Risk**

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2015 and December 31, 2014, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	Management Fees (a)	2015 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 13,464	\$ 270,190	\$ 41,445	\$ 21,882	\$ 333,784	\$ 36,254

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

**Interest Rate Risk**

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2015 and December 31, 2014, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows: